1016-B Y4.G74/7:F31/50

OCT 1 3 1982

OVERSIGHT OF FEDERAL COMMUNICATIONS COMMISSION IMPLEMENTATION OF COMPUTER INQUIRY II

ORIGINAL

COMPLETED

HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

MARCH 3, 1982

Printed for the use of the Committee on Government Operations

Y4.G74/7:F31/50

U.S. GOVERNMENT PRINTING OFFICE

98-242 O WASHINGTON: 1982

I

COMMITTEE ON GOVERNMENT OPERATIONS

JACK BROOKS, Texas, *Chairman*

L. H. FOUNTAIN, North Carolina
DANTE B. FASCELL, Florida
BENJAMIN S. ROSENTHAL, New York
DON FUQUA, Florida
JOHN CONYERS, Jr., Michigan
CARDISS COLLINS, Illinois
JOHN L. BURTON, California
GLENN ENGLISH, Oklahoma
ELLIOTT H. LEVITAS, Georgia
DAVID W. EVANS, Iniana
TOBY MOFFETT, Connecticut
HENRY A. WAXMAN, California
FLOYD J. FITHIAN, Indiana
TED WEISS, New York
MIKE SYNAR, Oklahoma
EUGENE V. ATKINSON, Pennsylvania
STEPHEN L. NEAL, North Carolina
DOUG BARNARD, Jr., Georgia
PETER A. PEYSER, New York
BARNEY FRANK, Massachusetts
HAROLD WASHINGTON, Illinois
TOM LANTOS, California
BARBARA B. KENNELLY, Connecticut

FRANK HORTON, New York
JOHN N. ERLENBORN, Illinois
CLARENCE J. BROWN, Ohio
PAUL N. McCLOSKEY, Jr., California
THOMAS N. KINDNESS, Ohio
ROBERT S. WALKER, Pennsylvania
M. CALDWELL BUTLER, Virginia
LYLE WILLIAMS, Ohio
JOEL DECKARD, Indiana
WILLIAM F. CLINGER, Jr., Pennsylvania
RAYMOND J. McGARTH, New York
HAL DAUB, Nebraska
JOHN HILER, Indiana
WENDELL BAILEY, Missouri
LAWRENCE J. DeNARDIS, Connecticut
JUDD GREGG, New Hampshire
MICHAEL G. OXLEY, Ohio

WILLIAM M. JONES, *General Counsel*
JOHN E. MOORE, *Staff Administrator*
JOHN M. DUNCAN, *Minority Staff Director*

GOVERNMENT INFORMATION AND INDIVIDUAL RIGHTS SUBCOMMITTEE

GLENN ENGLISH, Oklahoma, *Chairman*

TED WEISS, New York
HENRY A. WAXMAN, California
JOHN L. BURTON, California
JOHN CONYERS, Jr., Michigan

THOMAS N. KINDNESS, Ohio
JOHN N. ERLENBORN, Illinois
WENDELL BAILEY, Missouri

EX OFFICIO

JACK BROOKS, Texas

FRANK HORTON, New York

DONNA C. ARCHER, *Professional Staff Member*
REBECCA MILLER, *Secretary*
JOHN J. PARIS, *Minority Professional Staff*

CONTENTS

	Page
Hearing held on March 3, 1982	1
Statement of—	
Fowler, Mark S., Chairman, Federal Communications Commission, accompanied by Gary M. Epstein, Chief, Common Carrier Bureau; James B. Mullins, Computer II Implementation Team Leader; James K. Smith, Special Assistant to the Chief, Common Carrier Bureau; Alar R. McKie, Deputy Managing Director; Kalmann Schaefer, Assistant to the Chairman, International Communications; and Thomas P. Campbell, Associate Managing Director for Operations	2
Letters, statements, etc., submitted for the record by—	
Fowler, Mark S., Chairman, Federal Communications Commission:	
Prepared statement	5–35
Submissions to additional subcommittee questions	59–86

OVERSIGHT OF FEDERAL COMMUNICATIONS COMMISSION IMPLEMENTATION OF COMPUTER INQUIRY II

WEDNESDAY, MARCH 3, 1982

HOUSE OF REPRESENTATIVES,
GOVERNMENT INFORMATION
AND INDIVIDUAL RIGHTS SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2203, Rayburn House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representative Glenn English.

Also present: Donna C. Archer, professional staff member; Rebecca A. Miller, secretary; and John J. Parisi, minority professional staff, Committee on Government Operations.

Mr. ENGLISH. The hearing will come to order.

This morning we will begin to investigate the ability of the Federal Communications Commission to carry out the job outlined in the Commission's recent Computer Inquiry II decision. That decision deals with the regulatory problems raised by the convergence of data processing and communications technologies. In a recent report to this subcommittee, the General Accounting Office questioned whether the Commission has the resources and the capabilities to carry out required tasks in the Computer II decision.

Lifting the burden of regulation will benefit both business and the American consumer, but the FCC must avoid unfair burdens on business and residential customers. It must lift regulatory restrictions with great care. That care will require manpower and money, more manpower and more money than are needed to continue the existing program of regulation.

Putting it bluntly, we must pay the price of deregulation, or the American consumers will pay for the mistakes we could have avoided. Do we pay a relatively small amount now or a great deal later? As the General Accounting Office noted, the success of the Federal Communications Commission in carrying out the tasks before it will determine the success or failure of the regulatory program established in Computer II.

The American people cannot and should not accept failure. If a few dollars more are needed to insure the success of Computer II, the Commission should ask for them. Any other course simply gambles with the future of this country. We cannot afford to play

games with how we regulate the largest, fastest growing, and most vital sector of the American economy.

However, as we move to insure that the job outlined in Computer II is accomplished, we cannot lose sight of the other responsibilities of the Commission. A wide range of new technologies and services demand the time and attention of the Commission. We need to get innovative new products on the market. The FCC will stand in the way if it does not have the resources to develop and implement new regulatory programs. Low-power television, direct broadcast satellites, cellular radio, and a variety of other new services demand substantial resource commitments. Should we steal from those programs to pay for Computer II?

We cannot let the need to commit money and people to new efforts cripple the ability of the Commission to fulfill its continuing responsibilities. Where the FCC acts to protect the public interest, it must see its actions through as fully and fairly as possible. Moreover, the Commission must continue its routine but vital day-to-day operations. In international activities, for example, we agree with Chairman Fowler's observation last October: "The Commission cannot do any less, it must do more."

With the hope that our discussion today will help the Commission better serve the American people, I welcome our key witness, Mark Fowler, Chairman of the Federal Communications Commission. Welcome Mr. Chairman.

STATEMENT OF MARK S. FOWLER, CHAIRMAN, FEDERAL COMMUNICATIONS COMMISSION, ACCOMPANIED BY GARY M. EPSTEIN, CHIEF, COMMON CARRIER BUREAU; JAMES B. MULLINS, COMPUTER II IMPLEMENTATION TEAM LEADER; JAMES K. SMITH, SPECIAL ASSISTANT TO THE CHIEF, COMMON CARRIER BUREAU; ALAN R. McKIE, DEPUTY MANAGING DIRECTOR; KALMANN SCHAEFER, ASSISTANT TO THE CHAIRMAN, INTERNATIONAL COMMUNICATIONS; AND THOMAS P. CAMPBELL, ASSOCIATE MANAGING DIRECTOR FOR OPERATIONS

Mr. FOWLER. Thank you Mr. Chairman. I have a written statement which I have submitted for the record. With me today are Gary Epstein, Chief of the Common Carrier Bureau, on my right, Alan McKie, who is the Deputy Managing Director of the Federal Communications Commission, Kalmann Schaefer, who is my chief advisor on international matters and who has worked rather closely with members of the staff. I would like to ask Mr. Epstein to introduce some of the other staff members here.

Mr. EPSTEIN. Mr. Chairman, I would like to introduce James Smith on my right who is my special assistant and I would like to introduce James Mullins who is head of the Computer II Task Force at the agency.

Mr. ENGLISH. Thank you, Mr. Chairman. Without objection, your entire statement will be made a part of the record if you care to summarize.

Mr. FOWLER. I have a brief statement here—a shorter version. Mr. Chairman, I welcome the opportunity to discuss with you our implementation of the Computer II decision. As you know, in undertaking this responsibility the Commission is breaking new

ground. The tasks involved are large and accomplishing them in a responsible fashion is of enormous importance to the public. I appreciate your committee's interest and concern that the Commission have the resources to meet adequately the challenge.

The GAO report of January 29, 1982, which you commissioned, questions whether our resources are adequate. Specifically, GAO inquires whether the Commission can implement effectively and then monitor AT&T's entry into the unregulated sector, and whether the necessary capitalization, cost allocation, auditing, and other monitoring programs will be in place by the appropriate implementation date. As GAO correctly notes, requiring AT&T to establish a separate subsidiary for its unregulated activities does not totally eliminate either the incentive or the opportunity for cross-subsidization and other anticompetitive behavior. It does, however, make such behavior easier to detect. Our job in implementing Computer II is to see that the proper mechanisms for preventing and detecting such behavior are established. Because the Commission is involved in the formulation of AT&T's new structure from the very beginning, we can better assure that AT&T develops systems and procedures which facilitate our continuing regulatory oversight. The burden is on the FCC to insure that the systems and procedures AT&T develops accurately reflect costs and facilitate the FCC's ability to audit and monitor transactions between the subsidiary and affiliated entities. Contrary to the impression created by the GAO report, however, the burden is not on the FCC to develop the appropriate costing methodologies and accounting systems for shared or joint activities. If the burden rested with the FCC, Computer II implementation would indeed require the full time and attention of large numbers of highly trained accountants, economists, and lawyers. In reality, it is incumbent upon AT&T to develop costing and accounting systems for complying with Computer II which are satisfactory with the FCC. Within this framework, I believe the Commission can responsibly implement Computer II. The GAO report recognizes that the unique nature of Computer II implementation makes it difficult to evaluate resource needs. It is incumbent upon the Commission to make a reasonable estimate of required resources to implement Computer II based on a realistic assessment of the scope of our oversight function. This we have done. Implementing Computer II is our highest priority. This priority is clearly shown in our budget proposal for fiscal year 1983. Although we propose reducing both the size and budget for the FCC as a whole, we propose to increase the staff and budget of the Common Carrier Bureau. Most of that increase is allocated to Computer II implementation. Resources necessary to implement Computer II are reduced to some extent by virtue of the fact that implementation can proceed in phases. For example, AT&T's capitalization plan, currently pending before the Commission, does not encompass CPE and the burden on staff resources is, therefore, less. Moreover, our bifurcated approach to deregulating CPE further staggers the impact of implementing Computer II. Under this approach, when AT&T supplements capitalization of the subsidiary to provide new CPE, the Commission will still not need to make final determinations about the valuation of embedded CPE. Issues relating to the valuation of embedded CPE will be addressed in a separate pro-

ceeding. In large measure, therefore, the Commission staff is able to devote considerable attention to each distinct phase of implementation.

The GAO report also indicated that the FCC is likely to experience difficulty in dealing with all the issues relating to the interaction between the separate subsidiary and its affiliates. The report paid particular attention to transactions between the subsidiary and Western Electric and Bell Laboratories. While I would acknowledge the need for safeguards, I would disagree with the GAO's perception of what the FCC must do to oversee these transactions. For example, the GAO report states that the FCC will have to develop before January 1, 1983, the necessary accounting records to enable it to monitor cost allocations within AT&T's research affiliate to insure the charges to the subsidiary for research and development are cost compensatory. This is not the case. I believe the GAO report distorts the implementation tasks before the Commission and as a result creates a false impression as to potential resource needs. The GAO report correctly points out that a followup audit capability to monitor the boundaries between regulated and unregulated activities is a fundamental regulatory tool. It notes that three alternatives are available to the Commission in carrying out its audit responsibilities: (1) use of FCC staff, (2) use of an outside firm, or (3) reliance on carrier self-certification. I expect that the Commission will rely initially on all three. But I believe that if the control mechanisms are properly structured and workable and auditing test points are established, we have established a realistic appraisal of our immediate auditing resource needs.

The Commission has made progress in assembling a staff of experts to deal with Computer II implementation problems. The staff has set a timetable for resolving these problems and is adhering to it. We are working diligently to monitor and guide AT&T's efforts to comply with the requirements of Computer II, while trying at the same time to hold unnecessary bureaucratic interference in business decisions to a minimum. Because we have been involved at the very beginning of the deregulation of some of AT&T's activities, we are quite hopeful that the systems and procedures finally adopted will facilitate our continued oversight. There is a very significant difference between this effort and many prior FCC efforts. In prior cases such as the docket 19129 investigation mentioned by GAO, the FCC was often faced with the problem of untangling obscure procedures and years of accumulated data and transactions with which it had little prior first-hand experience. That clearly is not the case here in the implementation of Computer II. I do not intend to minimize congressional concerns that we have adequate staff and support facilities to meet the Computer II challenge. I recognize the limits of other parts of the agency which are performing valuable and necessary work in other areas to staff the Computer II effort. I am confident, however, that at projected levels of funding, the FCC can accomplish the task. I value the opinions and suggestions of GAO and the continued interest and the assistance of the subcommittee. Mr. Chairman, that concludes my prepared remarks. I thank you for the opportunity to speak.

[Mr. Fowler's prepared statement follows:]

STATEMENT OF

MARK S. FOWLER
CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION

Mr. Chairman and Members of the Subcommittee:

I welcome the opportunity to discuss with you our implementation of the Computer II decision. As you know, in undertaking this responsibility the Commission is breaking new ground. The tasks involved are large, and accomplishing them in a responsible fashion is of enormous importance to the public. I appreciate your Committee's interest and concern that the Commission have the resources to meet adequately this challenge.

The GAO Report, of January 29, 1982, which you commissioned, questions whether our resources are adequate. Specifically, GAO inquires whether the Commission can implement effectively and then monitor AT&T's entry into the unregulated sector, and whether the necessary capitalization, cost allocation, auditing and other monitoring programs will be in place by the appropriate implementation date.

Before responding to the specific GAO questions, I wish to explain on a conceptual level the framework for Commission oversight of AT&T's participation in the unregulated enhanced services and customer premises equipment (CPE) markets and how the FCC has structured this framework to minimize burdens on FCC resources. Our reliance on structural separation permits the marketplace itself to act as a check on AT&T's competitive behavior. Where accounting mechanisms are used, the FCC has placed the onus of developing them on AT&T.

MICROFILMED FROM
BEST AVAILABLE COPY

98-342 0 - 82 - 2

In its decisions, the Commission required a separate subsidiary structure for AT&T's participation in the provision of enhanced services and CPE. Specific structural separation requirements were adopted so as to minimize problems in allocating joint and common costs and to provide a check on potential anticompetitive conduct through AT&T's dominant control over transmission facilities. For example, the subsidiary is required to have separate computer facilities and separate marketing, installation, and maintenance personnel for its enhanced services and CPE. The separate subsidiary must perform its own software development and may not own transmission facilities. Because AT&T must obtain the necessary transmission capacity for enhanced services pursuant to tariff, federal and state regulatory agencies maintain their built-in mechanisms for controlling potential anticompetitive practices associated with the telecommunications network. Where complete separation has been required, the task of insuring compliance is relatively simple and the marketplace provides a realistic check on AT&T's compliance with the separation requirements.

At the same time, the Commission permitted AT&T to share certain administrative services with its subsidiary, such as, accounting, auditing, legal, personnel recruitment and management, finance, tax, insurance and pension services. Research and development may also be engaged in between the subsidiary and affiliated entities on a joint basis. AT&T's authority to share these services, however, was explicitly premised on the existence of an accounting system which accurately reflects the costs of any shared services provided to the subsidiary by an affiliated entity.

MICROFILMED FROM BEST AVAILABLE COPY

Contrary to the impression created by the GAO Report, however, the burden is not on the FCC to develop the appropriate costing methodologies and accounting systems for shared or joint activities. If the burden rested with the FCC, Computer II implementation would indeed require the full time and attention of large numbers of highly trained accountants, economists and lawyers. In reality, it is incumbent upon AT&T to develop costing and accounting systems for complying with Computer II. AT&T is already working on these systems and Commission staff is active in monitoring their development through auditing activities and informal staff contacts.

As GAO correctly notes, requiring AT&T to establish a separate subsidiary for its unregulated activities does not totally eliminate either the incentive or the opportunity for cross-subsidization and other anticompetitive behavior. It does, however, make such behavior easier to detect. Our job in implementing Computer II is to see that the proper mechanisms for preventing and detecting such behavior are established. Because the Commission is involved in the formulation of AT&T's new structure from the very beginning, we can better assure that AT&T develops systems and procedures which facilitate our continuing regulatory oversight. In this regard, the burden is on the FCC to ensure that the system and procedures AT&T develops accurately reflect costs and facilitate the FCC's ability to audit and monitor transactions between the subsidiary and affiliated entities. Within this framework I believe the Commission can responsibly implement Computer II.

MICROFILMED FROM
BEST AVAILABLE COPY

It is within this context that I will respond to the following five questions which the GAO has raised with respect to the Commission's Computer II implementation program:

1. Will FCC's present resource plan ensure successful Computer II implementation?

2. Will the FCC be able to have all necessary costing and accounting systems in place in time to meet its Computer II implementation schedule?

3. Can the FCC ensure that AT&T's plans for capitalizing its separate subsidiary do not affect the costs of regulated services or provide the subsidiary an unfair advantage in competitive markets?

4. Will the FCC be able to develop the necessary mechanisms to ensure that transactions and interrelationships between the separate subsidiary and its corporate affiliates take place on an arm's length and cost compensatory basis?

5. Will the FCC have the audit capability to police effectively the boundaries between regulated and unregulated activities of common carriers?

MICROFILMED FROM
BEST AVAILABLE COPY

In addressing these questions, I believe the major concerns raised by GAO will be answered.

1. Will FCC'S Present Resource Plan Ensure Successful Computer II Implementation?

The GAO Report recognizes that the unique nature of Computer II implementation makes it difficult to evaluate resource needs. The report goes on to state that under any circumstances implementation is likely to prove complex and resource intensive and will be increasingly so to the extent cost sharing is allowed. I might agree with the statement if the burden of going forward rested solely on the FCC. As I stated, however, this is not the case.

It is incumbent upon the Commission to make a reasonable estimate of resources required to implement Computer II based on a realistic assessment of the scope of our oversight function. This we have done. The Computer II Task Force staff presently stands at eleven members: four attorneys (including the Task Force leader), four economists, one accountant, one engineer and one secretary. This staffing level will increase in the near future to seventeen as we add a systems analyst, a financial analyst, another attorney and three more accountants. We also have the ability to supplement and are supplementing Computer II resources with other people from the Common Carrier Bureau. At the present time, as just one example, two additional auditors from the Accounting Division of the Bureau are working directly with the Task

MICROFILMED FROM
BEST AVAILABLE COPY

Force staff. Thus, in addition to the 17 people serving directly on the Task Force, the resources of the rest of the Bureau are available for this most important project.

Implementing Computer II is our highest priority. This priority is clearly shown in our budget proposal for Fiscal Year 1983. Although we propose reducing both the size and budget for the FCC as a whole, we propose to increase the staff and budget of the Common Carrier Bureau. Most of that increase is allocated to Computer II implementation. For Fiscal Year 1983 we have proposed a budget of two million dollars for Computer II implementation. That figure includes $1,500,000 for consultants to value assets associated with the transfer of embedded CPE. It also includes $200,000 for an expert consultant in systems analysis to help us develop a computer assisted auditing system. We think that with these resources the Commission will have the ability to fulfill its oversight function.

2. Will The FCC Be Able To Have All Necessary Costing And Accounting Systems In Place In Time To Meet Its Computer II Implementation Schedule?

The GAO Report notes that costing and accounting systems are necessary for (a) AT&T's shared installation and maintenance services for business CPE during an 18 month transition period, (b) AT&T's shared administrative services, and (c) separating regulated and non-regulated services of carriers that are not subject to the separate subsidiary

MICROFILMED FROM
BEST AVAILABLE COPY

structure. The GAO contends that it will be difficult for the Commission to develop workable costing and accounting systems and at the same time meet its implementation schedule.

As to the first two items, I must observe that GAO's conclusions are based on a faulty premise. It assumes that the FCC will be developing these systems. Under our Computer II framework, AT&T is permitted to share certain activities and functions with its separate subsidiary—but only if it develops an acceptable accounting system which accurately reflects the costs associated with any shared activities. Thus, it is incumbent upon AT&T to develop an appropriate accounting system for shared services. I believe that an acceptable, auditable accounting system must be in place before any sharing takes place. I would expect, however, that the sophistication of the accounting system AT&T relies upon initially will evolve as our oversight functions dictate. The timeframe for establishing these accounting systems is a function of how quickly AT&T can develop appropriate costing methodologies and accounting systems which pass muster under the Commission's and the public's close scrutiny. Let me outline for you some recent actions taken by the Commission in this area.

On January 13, 1982, AT&T filed its plan for the allocation of shared installation and maintenance costs for business CPE. Upon initial review of the proposal the Bureau responded by letter dated February 3, 1982 (Appendix A) requesting that AT&T clarify its control mechanisms to assure that the separate subsidiary is properly billed for the full cost of any installation and maintenance work performed for it by carrier

MICROFILMED FROM
BEST AVAILABLE COPY

affiliates. In addition, the Bureau requested information on AT&T's progress in developing its accounting system for shared installation and maintenance. The proposed system addresses the allocation of personnel expenses and overhead, internal audit controls and tests, the development of software for evaluation of time charges, loadings and billings, and the development of other cost allocation factors. AT&T filed its response to the Bureau's letter last Friday, and the staff is currently reviewing AT&T's filing.

On January 13, 1982, AT&T also filed its proposal for the sharing of administrative services. Public comments on this proposal were received by the Commission on February 19, 1982. In general, AT&T's proposals for allocating costs and accounting for shared activities are less highly developed than its plan for the sharing of installation and maintenance, and we expect that AT&T's work on it will continue. In addition, the Common Carrier Bureau will seek additional information on AT&T's shared administrative proposal in the near future.

The third point raised by GAO involves the separation of costs between regulated and non-regulated services provided by non-Bell carriers that are not subject to the separate subsidiary requirement. For non-Bell carriers, we are talking primarily about the separation of costs between state regulated exchange service and provision of enhanced services or CPE. The Computer II decision requires these carriers to maintain separate books of accounts for their unregulated services. The separation of unregulated services from local exchange service is an area in which the state regulatory commissions historically have had

MICROFILMED FROM
BEST AVAILABLE COPY

primary oversight. This is because the rate regulation involved is for common carrier services regulated by the states and not the FCC. Thus we expect that the states will continue in their primary oversight role to ensure that ratepayers in their jurisdictions are not burdened by a carrier's provision of enhanced services or CPE. Of course, the FCC must stand ready to provide whatever guidance may be appropriate and to provide a forum through which consistency in such areas as accounting may be obtained. For example, our rules require that all carriers provide nondiscriminatory access to basic transmission services. Non-Bell carriers may provide enhanced services through their own transmission facilities, but they must acquire that transmission capacity pursuant to prices, terms and conditions reflected in their tariffs. Commission staff members are also currently analyzing the terms, nature and extent of the FCC's involvment in prescribing accounting separation for these carriers.

3. Can FCC Ensure That AT&T'S Plans For Capitalizing Its Separate Subsidiary Do Not Affect The Cost Of Regulated Services Or Provide The Subsidiary An Unfair Advantage In Competitive Markets?

The third area raised in the GAO report deals with AT&T's capitalization plan for its separate subsidiary. The Computer II decision required AT&T to file a capitalization plan for its separate subsidiary at least 180 days prior to its formation. On November 30, 1981, AT&T filed a capitalization plan for a separate subsidiary (temporarily titled "XYZ, Inc.") to provide Advanced Communications Service (ACS). AT&T describes

MICROFILMED FROM
BEST AVAILABLE COPY

ACS as an enhanced service which will provide computer and terminal compatibility and provide customers with software programming suitable to their individual information handling needs.

Commission review of AT&T's capitalization plan is proceeding on two parallel tracks. First, we have initiated a public proceeding seeking comment on the capitalization plan. The second track involves a Commission staff audit of preoperational costs associated with the subsidiary's provision of enhanced services. As part of the public proceeding, on January 29, 1982, the Common Carrier Bureau apprised AT&T (Appendix B) of AT&T's need to supplement its capitalization plan and sought additional information relevant to further examination of the capitalization plan. The Bureau specifically requested additional information on the following points:

1. The relationship between ACS and the packet switched service on which it will rely and the public availability of network information relating to interconnection.

2. Estimates of AT&T's total annual spending in the years 1982-85, the financial risk to ratepayers posed by AT&T's investment in the subsidiary, and the impact on AT&T's cost of capital if the subsidiary is not financially viable.

3. An analysis of the preoperational expenses incurred to date for ACS and the accounting treatment of those

MICROFILMED FROM
BEST AVAILABLE COPY

expenses including the extent to which they have been included in revenue requirements for AT&T's regulated services.

4. An explanation of accounting for, and tax treatment of, transfers of assets and capital between AT&T and the separate subsidiary.

5. A description of AT&T's control mechanism for assuring compliance with the Computer II rules regarding marketing, customer proprietary information, and network design information.

AT&T responded to the Bureau's information requests on February 19, 1982. The time period for public comment on AT&T's response will expire March 25. AT&T also indicated that by March 15 it would file a request for additional capitalization reflecting the transfer of responsibility to the new subsidiary for the preoperational costs of all enhanced services (in addition to ACS) which it is presently developing. AT&T also indicated that at a later date it would file a request for additional capitalization to allow the subsidiary to provide CPE.

Regarding the staff audit, the Bureau advised AT&T, on February 3, 1982 (Appendix C), of the Commission's intention to audit AT&T's preoperational expenses and investments on behalf of XYZ, Inc. The audit is underway. The major areas of focus include: verification of preoperational expenses incurred for enhanced service development,

MICROFILMED FROM
BEST AVAILABLE COPY

verification of costs of physical assets to be transferred to the subsidiary, assessment of the development of internal controls to monitor compliance with the Commission's structural separation requirements, and assessment of AT&T's development of reporting systems which will facilitate our oversight function.

The resources necessary to evaluate AT&T's capitalization plans are reduced to some extent by virtue of the fact that AT&T has chosen to proceed in phases. The capitalization plan before us now does not encompass CPE and the burden on staff resources is therefore less. Moreover, our bifurcated approach to deregulating CPE further staggers the impact of implementing Computer II. Under this approach, when AT&T supplements capitalization of the subsidiary to provide new CPE, the Commission will still not need to make final determinations about the valuation of embedded CPE. Issues relating to the valuation of embedded CPE will be addressed in a separate proceeding. In large measure, therefore, the issues raised by a given capitalization plan are more narrowly focused.

4. Will The FCC Be Able To Develop The Necessary Mechanisms To Ensure That Transactions And Interrelationships Between The Separate Subsidiary And Its Corporate Affiliates Take Place On An Arm's Length And Cost-Compensatory Basis?

The GAO Report also indicated that the FCC is likely to experience difficulty in dealing with all the issues relating to the interaction

MICROFILMED FROM
BEST AVAILABLE COPY

between the separate subsidiary and its affiliates. The particular report paid attention to transactions between the subsidiary and Western Electric and Bell Laboratories. GAO noted that the subsidiary may share research and development, obtain equipment and CPE, contract for installation and maintenance, and sell equipment which it manufactures to these and other affiliates. GAO noted that in each of these areas a potential exists for cross-subsidy or other forms of anticompetitive behavior and, thus, safeguards are needed to protect ratepayers and to ensure fair competition.

The need for safeguards is clear. I would disagree, however, with the GAO's perception of what the FCC must do to oversee these transactions. For example, the GAO Report states that the FCC will ". . . have to develop before January 1, 1983, the necessary accounting records to enable it to monitor cost allocations within AT&T's research affiliate to ensure that charges to the subsidiary for research and development are cost compensatory." This is not the case. I believe that GAO distorts the implementation tasks before the Commission and, as a result, creates a false impression as to potential resource needs.

The Commission's approach to shared research and development is similar to our approach to shared administrative services. In Computer II the Commission allowed the subsidiary to share R&D. The Commission's action was permissive in nature, contingent upon any shared R&D being done on an auditable, cost compensatory basis. Accordingly, if AT&T plans to share R&D, it must establish a system for ensuring that any joint R&D is compensatory. The burden is on AT&T, not the FCC, to produce the

MICROFILMED FROM
BEST AVAILABLE COPY

appropriate accounting system. Once AT&T develops such a system, it is then the FCC's responsibility to ascertain whether or not the system adequately meets the parameters set forth in Computer II. The impact on resources is significantly smaller when the staff performs a review function than when it carries the burden of developing the system in the first instance. Moreover, the ultimate schedule for developing any such system and obtaining Commission approval of it is a function of AT&T's own priorities and its responsiveness to whatever concerns the Commission might have with a given proposal. In the interim, however, the Commission is considering issues relating to shared R&D costs in connection with AT&T's January 13 filing on shared administrative expenses and as part of the audit now being conducted by the staff.

As a general matter, the Commission is well aware of the need to have mechanisms in place to oversee transactions between the separate subsidiary and its corporate affiliates. In fact, the primary mechanism for oversight was incorporated into the structural separation rules adopted in Computer II. These rules require that all transactions between the separate subsidiary and affiliated entities which involve the transfer of money, personnel, resources, assets or anything of value be reduced to writing. Any contract, agreement, or other arrangement entered into between such entities must be filed with the Commission within 30 days. Accordingly, the mechanism for monitoring these transactions is already in place.

Another factor which may affect our Computer II monitoring work load is the consent decree modification agreed to by AT&T and the Justice

MICROFILMED FROM
BEST AVAILABLE COPY

Department. In the long run, the modification should reduce the Computer II regulatory burden on the FCC. If it is entered in its present form, it will reduce the size, if not the existence, of certain of the regulatory problems involved in separating competitive from monopoly activities. It should facilitate monitoring of intracorporate transactions. Under the proposed modification, AT&T's ability to cross-subsidize and engage in other anticompetitive activities through its control over monopoly local exchange companies will end with AT&T's divestiture of those companies.

Although I may have some questions about some of the details, I support the pro-competitive goals of the proposed consent decree. They are entirely consistent with our goals in Computer II and our overall pro-competitive regulatory policies. I do not believe the consent decree modification alters the validity of our Computer II decision.

5. Will FCC Have The Audit Capability To Effectively Police The Boundaries Between Regulated And Unregulated Activities Of Common Carriers?

The GAO Report correctly points out that a follow-up audit capability to monitor the boundaries between regulated and unregulated activities is a fundamental regulatory tool. It notes that three alternatives are available to the Commission in carrying out its audit responsibilities — use of FCC staff, use of an outside firm, or reliance on carrier self-certification. I expect that the Commission will rely initially on

MICROFILMED FROM
BEST AVAILABLE COPY

all three. Our own audit methodology for monitoring carrier/subsidiary transactions, as well as for monitoring shared administrative and installation and maintenance expenses, will be a combination of carrier self-certification and monitoring of test-points by our own auditors. This kind of approach has worked effectively in the securities regulation field for decades and we believe it can be effective here also. In addition, we intend to use outside consultants to assist the Commission staff in establishing workable test points for our auditing activities.

There is obviously a degree of uncertainty involved in estimating the Commission's resource requirements for carrying out its auditing functions. Three auditors, assisted by two economists and a financial analyst, are currently scrutinizing preoperational costs associated with AT&T's pending capitalization plan. We expect to add three more auditors by January 1983. This may be viewed as a conservative staffing approach. But, I believe that if the control mechanisms are properly structured and workable auditing test points are established, this number represents a realistic appraisal of our immediate auditing resource needs.

The Commission has made progress in assembling a staff of experts to deal with the Computer II implementation problems. The staff has set a timetable for resolving these problems and is adhering to it.

As my remarks indicate, we are working diligently to monitor and guide AT&T's efforts to comply with the requirements of Computer II, while

MICROFILMED FROM
BEST AVAILABLE COPY

trying at the same time to hold unnecessary bureaucratic interference in business decisions to a minimum. Because we have been involved at the very beginning of the deregulation of some of AT&T's activities, we are quite hopeful that the systems and procedures finally adopted will facilitate our continued oversight. This is a very significant difference between this effort and many prior FCC efforts. In prior cases, such as the Docket No. 19129 investigation mentioned by GAO, the FCC was often faced with the problem of untangling obscure procedures and years of accumulated data and transactions with which it had little prior firsthand experience. That, clearly, is not the case here.

I do not intend to minimize Congressional concerns that we have adequate staff and support facilities to meet the Computer II challenge. We recognize the limits to which we can borrow from other parts of the agency, which are performing valuable and necessary work in other areas, to staff the Computer II effort. I am confident, however, that at projected levels of funding the FCC can accomplish the task.

I value the opinions and suggestions of GAO and the continued interest and assistance of this Subcommittee.

Mr. Chairman, that concludes my prepared remarks. Thank you for this opportunity to express my views.

MICROFILMED FROM
BEST AVAILABLE COPY

98-342 0 - 82 - 4

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

IN REPLY REFER TO:
161000

February 3, 1982

Alfred A. Green, Esquire
American Telephone and
Telegraph Company
195 Broadway
New York, New York 10007

Dear Mr. Green:

This letter is in response to the January 13, 1982 filing by the American Telephone and Telegraph Company (AT&T) of a plan to account for the costs that will be incurred by the Bell Operating Companies (BOCs) in provision of installation and maintenance services for business customer premise equipment on behalf of AT&T's separate subsidiary, during an initial 18 month transitional period. AT&T has filed this plan in compliance with the Commission's Further Reconsideration Order in Computer II, FCC 81-481, released October 30, 1981. The plan describes the manner in which AT&T proposes to use its present accounting system to record direct productive hours, develop procedures to allocate related overhead and administrative expenses, and provide for a reasonable profit to the BOCs for installation and maintenance activities undertaken on behalf of the separate subsidiary.

Initial review of the filing indicates a need for greater clarification on the following points:

1. Please elaborate on the control mechanisms that will be used to help assure that maintenance performed on behalf of the separate subsidiary is actually billed to the separate subsidiary. (See pages 10 and 13 of Report).

2. Please indicate the extent to which a BOC will provide both cost and/or delivery quotation information to the separate subsidiary for installation and maintenance services. How are the costs associated with giving a quotation to be accounted for?

MICROFILMED FROM
BEST AVAILABLE COPY

3. Please describe in detail how AT&T proposes to distinguish between new equipment and additions to embedded equipment so that installation and maintenance performed for the separate subsidiary will be properly accounted for.

4. Please provide AT&T's estimated timetable and major milestones for the proposed accounting system. Please specifically address the following:

   a. the development of various loading rates;
   b. the internal controls to be designed into the system, and verified by AT&T's auditors;
   c. the necessary internal audit programs and frequency of tests:
   d. the software that evaluates time charges, applies loadings and prepares the bills;
   e. reports to be generated by the system: and
   f. the identification of costing. and development of an allocation factor for "Other Operational Support Systems" (Report at page 17).

AT&T is requested to respond to the above matters on or before February 26, 1982. Subsequent to receipt of your response the Bureau intends to seek public comment on the proposed accounting system. In the interim, AT&T should continue its efforts to develop and refine the proposed accounting system.

Thank you for your cooperation.

Sincerely yours,

Gary M. Epstein
Chief, Common Carrier Bureau

MICROFILMED FROM
BEST AVAILABLE COPY

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

JAN 28 1982

IN REPLY REFER TO:

Alfred A. Green
American Telephone and
Telegraph Company
195 Broadway
New York, New York 10007

Dear Mr. Green:

On November 30, 1981, the American Telephone and Telegraph Company (AT&T) filed with the Commission a capitalization plan for a separate subsidiary in accordance with Section 64.702(d)(4) of the Commission's Rules and as required by the Second Computer Inquiry, 77 FCC 2d 384 (1980), recon., 84 FCC 2d 50, further recon., FCC 81-481, released October 30, 1981, appeal pending sub nom. Computer and Communications Industry Association v. F.C.C. (D.C. Cir. No. 80-1471, filed May 5, 1980). The capitalization plan set forth AT&T's proposal to provide Advanced Communications Service (ACS) using the separate subsidiary structure required by the Second Computer Inquiry. The purpose of this letter is twofold: first, to apprise AT&T of the need to supplement its capitalization plan; and second, to seek additional information relevant to further examination of the capitalization plan.

AT&T has filed reports with the Commission which indicate that AT&T is currently engaged in the development and formulation of various enhanced services. The Bureau's initial review of the capitalization plan reveals that AT&T has addressed preoperational expenses, equipment transfers and funding regarding ACS but does not appear to contemplate the immediate funding or transfer of costs associated with other enhanced services ventures which are currently being developed, or for which development may commence in the timeframe set forth in the capitalization plan. Even though AT&T has sought to limit its initial capitalization plan to a discrete service, such as ACS, it is the Bureau's position that it would be inconsistent with the thrust of the separation requirements for AT&T to proceed on a separated basis for some services but not others. */ Absent a waiver of the Commission's rules, once AT&T establishes a separate subsidiary to provide enhanced services, expenses associated with other enhanced services must be borne by the separate entity. The level of funding

---

*/ Section 64.702(c) and (d) set forth the relationship that is to exist between AT&T's and its non-regulated subsidiary. The following areas are specifically addressed: software development, research and development, intracorporate transactions, network design and interconnection information.

MICROFILMED FROM
BEST AVAILABLE COPY

proposed in the capitalization plan should take into account costs associated with preoperational activities of other enhanced services. Thus, AT&T should proceed on the basis that costs associated with the formulation and development of enhanced services are to be separated from the regulated activities of AT&T and borne by the separate subsidiary and the capitalization plan should be modified to reflect this separation.

The Appendix to this letter contains various information requests directed toward the capitlaization plan and related areas of concern. Our major objective in assessing the capitalization plan is to assure the ratepaying public that it will not pay for start-up expenses incurred by the Bell System in establishing the new unregulated entity, nor for expenses incurred by the subsidiary once it becomes operational. In addition to the questions concerning the funding of the subsidiary and outside financing, the information requests address: the relationship of ACS to a basic packet switching service offering by AT&T; the methodology for developing preoperational expenses and the treatment of these expenses; the proposed transfer of assets and capital; and the corporate control mechanisms now employed and to be employed to assure fair competition and guard against cross-subsidization. AT&T's response to these questions is necessary for evaluation of the proposed capitalization plan.

AT&T is requested to file its responses to the information requests no later than 21 days from the date of this letter. In addition, AT&T should also respond to the GTE Telenet motion to dismiss, and to the pleadings of other interested parties relating to the capitalization plan when it files its response to the information requests. Modification of the capitalization plan as set forth above and the provision of detailed responses to the information requests will greatly facilitate an orderly and expeditious evaluation of the capitalization plan.

Thank you for your cooperation.

Sincerely yours,

Gary M. Epstein
Chief, Common Carrier Bureau

MICROFILMED FROM
BEST AVAILABLE COPY

APPENDIX

Information Requests Concerning
XYZ, Inc. Capitalization Plan

I. Proposed Subsidiary

A. Relation of ACS to Basic Packet Services:

1. Is the offering of ACS contingent on FCC approval of any Section 214 application or an effective tariff for a packet switched service?

2. Describe that information pertaining to AT&T's packet-switched network which has been made available to personnel connected with enhanced service development and which must be disclosed under Section 64.702(d)(2) of the Commission's Rules. If this information is not publicly available what steps will AT&T take to make this information available to other vendors?

B. Special Construction:

1. If Bell regulated carriers provide special construction for XYZ, Inc., will this work be provided under tariff? How will special construction costs and charges be determined?

II. Capitalization

A. Funding:

1. Under what circumstances would AT&T seek additional funding for enhanced services encompassed within the scope of the proposed capitalization plan?

2. Provide estimates of the total annual capital spending by AT&T, and the amount of external financing, for 1982 through 1985. How would the implementation of the proposed Modification of Final Judgment in Civil Action 17-49 (hereinafter referred to as the "consent decree") change these estimates?

B. Evaluation of Risk:

1. Please state and analyze the extent of any financial risk to ratepayers which may be created by AT&T's proposed investment in XYZ, inc. Include in this analysis: (a) the impact on AT&T's cost of capital if ACS is not financially viable and must be liquidated; and (b) the impact on AT&T's cost of capital assuming that the BOCs are divested pursuant to the consent decree modifications.

MICROFILMED FROM
BEST AVAILABLE COPY

C. Outside Financing:

1. In the Computer II Final Decision, the Commission stated that outside, or third party, financing would be addressed when the capitalization plan was submitted (77 FCC 2d 484 (1980)). Please provide:

   a. An explanation of why AT&T does not propose outside financing for XYZ, Inc., accompanied by all studies and underlying workpapers associated with this decision.

   b. A cost-benefit analysis of (i) a requirement that XYZ, Inc., maintain a minimum proportion of outside debt and/or equity financing, and (ii) a limit on the extent to which AT&T can provide debt and/or equity financing to XYZ, Inc.

III. Preoperational Expenses

A. Design Effort:

1. a. Please state the dates when the original ACS design effort and the ACS redesign effort began.
   b. From what point in the ACS development effort has AT&T assigned costs to XYZ, Inc.?

2. Please explain how AT&T identified and recorded the following costs, and state AT&T's position on including them as preoperational expenses:

   a. ACS marketing -- including market research and preliminary marketing expenses such as: personnel recruitment, training, advertising, and preparation of materials.

   b. Return on investment and depreciation related to equipment used in the ACS development, and to equipment that AT&T intends to transfer to XYZ, Inc., for ACS service.

   c. Basic R & D performed at BTL.

   d. Applied R & D performed at BTL.

3. Please explain how AT&T identified and recorded expenses associated with non-ACS enhanced services.

B. Disposition of Preoperational Expenses:

1. To what extent were ACS preoperational expenses included in revenue requirements for AT&T's regulated communications services.

MICROFILMED FROM
BEST AVAILABLE COPY

2. Please provide additional details on the accounting treatment for preoperational expenses and the ultimate disposition of these funds.

3. What action does AT&T propose to take if ACS development expenses were included in test year data for the purpose of formulating interstate and intrastate rates that are still in effect?

4. Please explain why no preoperational or organizational costs will be included on the XYZ, Inc., books.

IV. Transfer of Assets and Capital

A. Accounting:

1. Please provide additional details on how the depreciation reserves associated with the transferred assets will be determined and treated. How will AT&T treat USOA Section 31.2-22, Costs of Construction, associated with transferred equipment?

B. Tax Treatments:

1. Please provide before and after tax amounts, using actual taxes, not statutory rates, for all income statement data in the ACS Capitalization Plan.

C. Disposition of Preoperational Capital Spending:

1. Please provide a copy of any draft agreement governing the transfer of XYZ, Inc. stock from XYZ, Inc. to BTL and from BTL to AT&T. In addition, please provide any terms or conditions not set forth in the agreement.

2. What will be the tax treatment of these transactions?

D. Cash Advance:

1. How will AT&T determine the interest rate applicable to the short term cash advance it intends to provide to XYZ, Inc.?

2. Please provide a copy of any draft agreement under which XYZ, Inc., will repay the cash advance.

V. Separation Conditions

Please describe fully all control mechanisms that AT&T will use for ensuring compliance with Section 64.702 of the Commission's Rules with respect to:

MICROFILMED FROM
BEST AVAILABLE COPY

1. The marketing of XYZ, Inc., products and services by carrier affiliates.

2. The nondisclosure of customer proprietary information.

3. The disclosure of network design information.

4. The disclosure of customer proprietary information and network design information available to employees transferring between XYZ, Inc., and AT&T marketing and R & D departments.

MICROFILMED FROM
BEST AVAILABLE COPY

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

IN REPLY REFER TO:
61200

February 3, 1982

Alfred A. Green, Esquire
American Telephone and
Telegraph Company
195 Broadway
New York, New York 10007

Dear Mr. Green:

This concerns the plan the American Telephone and Telegraph Company (AT&T) has filed with the Commission to establish a separate subsidiary to provide enhanced services. The operations of the subsidiary and its relationship to other parts of AT&T are to be consistent with Section 64.702(c) and (d) of the Commission's Rules and the policies set forth in the Second Computer Inquiry, 77 FCC2d 384 (1980), recon., 84 FCC2d 50, further recon., FCC 81-481, released October 30, 1981, appeal pending sub nom. Computer and Communications Industry Association v. F.C.C., (D.C. Cir. No. 80-1471, filed May 5, 1980).

The Commission's oversight obligations require close scrutiny of AT&T's initial entry into the enhanced service market. The purpose of this letter is to advise you of a staff audit to be conducted in parallel with the Bureau's continuing review of AT&T's November 30, 1981 capitalization plan. The staff will audit the preoperational expenses and investments by AT&T on behalf of the subsidiary and examine the control mechanisms AT&T has developed to comply with the Computer II requirements. This review is to be conducted on AT&T's premises and will serve to inform the Commission of the manner in which AT&T has sought to comply with the safeguards embodied in Computer II. The attached Appendix contains a listing of materials necessary to begin this process. These materials should be made available for staff inspection at your earliest possible convenience.

In its review the staff will focus on four areas. These involve the need to: (1) verify the preoperating expenses submitted in AT&T's semi-annual report pursuant to the Computer II Reconsideration Order, 84 FCC2d 50 at paragraph 105, and in its proposed capitalization plan: (2) verify the costs recorded for the physical assets to be transferred to the proposed separate subsidiary: (3) assess the development of internal control systems and structures to ensure that adequate internal test points exist for the Commission to monitor compliance with the structural separation requirements: and (4) assess the development of reporting systems that capture data in a form useful to our oversight function.

MICROFILMED FROM
BEST AVAILABLE COPY

Alfred A. Green, Esquire
Page Two

Following the staff's review of these matters, the Bureau intends to submit a report to the Commission.

Thank you for your cooperation.

Sincerely yours,

Gary M. Epstein
Chief, Common Carrier Bureau

Attachment

MICROFILMED FROM
BEST AVAILABLE COPY

APPENDIX

I. Corporate Organization

A. XYZ, Inc.

Please provide an organization chart, or charts, of XYZ, Inc. showing: executive and managerial titles and functions: major divisions and functions; and profit centers and/or cost centers. In addition, please describe in detail:

1. The policy making responsibility and the accountability of the comptroller, treasurer and other financial officers of ATT & XYZ, Inc., concerning financial transactions between XYZ, Inc. and AT&T, WECO, BTL and the BOCs.

2. The location, organization and modes of operation of the divisions, or other organizational units, which will be responsible for oversight, monitoring and auditing of: a) contractual relationships between XYZ, Inc. and AT&T affiliates; and b) use by XYZ of administrative services provided by affiliates.

3. The XYZ, Inc. accounting system and accounting principles.

B. AT&T, Bell Labs, WECO, BOC's

1. Please provide: a) identification of all groups and subgroups within the AT&T General Departments, Long Lines, BTL, Western Electric, BOC's, and other AT&T organizations, where work, including administrative support and advertising, was performed relating to the development of enhanced services and the formation of the separate subsidiary; b) organization charts of these groups within their parent organization structures.

2. a) descriptions of the internal and external audit programs, and other controls that AT&T will implement to ensure that all Computer Inquiry II structural and accounting conditions are complied with; b) a description of the manner in which the FCC can access these programs.

C. Interaction Between XYZ, Inc., and Affiliated Entities

1. What research and development support will Western Electric, Bell Labs, or other affiliated entities provide for XYZ, Inc., either jointly or on a contract basis?

MICROFILMED FROM
BEST AVAILABLE COPY

2. In addition to R & D, what other non-administrative services or equipment will XYZ, Inc. receive from affiliated entities. Identify whether any such services will be performed jointly?

3. To what extent will XYZ, Inc. use an affiliated carrier's premises where transmission equipment used in the provision of basic transmission services is located.

4. Please provide all documents showing control mechanisms to be used, to ensure that:

   a) Employees of carrier affiliates do not market XYZ, Inc. products and services;

   b) Customer proprietary information is not made available to XYZ, Inc.:

   c) Prior to implementation and with reasonable advance notification, there is public disclosure of all information relating to AT&T's network which would affect either intercarrier interconnection or the manner in which CPE is attached to the network;

   d) Section 64.702(d)(2) is not circumvented through employee transfers.

5. Show how R & D research and development performed by Bell Labs, and engineering design and development performed by Western Electic are to be fully compensated by XYZ, Inc.

II. Verification of Preoperational Costs

A. Preoperational Expenses

1. Please provide the following data and documents relating to the ACS service. Include costs incurred by all AT&T entities, i.e. General Department, BOCs, WECO and BTL. Where these costs can be disaggregated, identify the specific AT&T entity which incurred that cost.

MICROFILMED FROM
BEST AVAILABLE COPY

a) Annual summary of expenses incurred in the original ACS design effort from the beginning to 12/31/79. The summary can be the project report, and should include the identifying location code for every department or function permitted to charge this program. In addition, other direct costs and appropriate loadings should be separately identified.

b) Summary of ACS program expenses from 1/1/80 to 12/31/81, include identification number for all sources of costs (departmental, functional, etc.; WECO, BTL, etc.)

c) The documents which initially authorized the ACS effort; subsequent task authorizations; supporting documents for initial and any subsequent program funding.

d) When, and how were funds first earmarked for this effort? If the initial proposal was included in your budgeting process and funds were set aside for this effort, please provide the related documents, including approvals.

e) Accounting rulings; strong recommendation letters; intercompany instructions; M-letter modifications, if any; organizational announcements relating to the establishment of the Organizational Development Division and any other groups concerned with the subsidiary's formation and enhanced service development.

f) The analysis and correspondence (or other appropriate evidence) used by the company to transfer the applicable portion of engineering and design and development expense from the original ACS to the redesign effort which commenced 1/1/80. Please identify and support the procedures used to separate the developmental costs for basic services from those attributable to ACS development.

g) Along with the documents requested, please supply an identification chart showing the location, organization, or functional group number used to identify the source of charges to the project or program.

MICROFILMED FROM
BEST AVAILABLE COPY

B. Pre-Operational Capital Spending

1. a) Please provide annotated lists of assets, to be transferred to XYZ, Inc., classified by categories more disaggregated than those given in the Capitalization Plan. b) Indicate the original purchase source for these assets (e.g., BTL, Western Electric, etc.); include the asset account charged, the original dollar values, and depreciation allowance taken. Note any items which are being removed from revenue service.

2. Identify the costs of leasehold improvements transferred and the accounting treatment used.

3. Please provide documents and support showing how costs for equipment used by engineering or design and development personnel during the development phase of the ACS program were recorded.

C. Other Enhanced Service Development Costs

Please provide similar documents data etc., as requested in A & B above, concerning the costs incurred in connection with the formulation and development of other enhanced services.

D. Subsidiary Formation Costs

Please provide similar documents, data, etc., as requested in A & B above, concerning the costs incurred in connection with the formation of XYZ. Inc.

E. Accounts Used

Please provide documentation indicating the accounts used by the AT&T entities to capture costs related to forming the separate subsidiary and developing enhanced services. In the case of Bell Labs and WECO, please provide relevant data illustrating how development work performed for AT&T and the BOCs has been traditionally charged and how such activities were handled in this case. Data can be furnished on an annual basis, i.e. as of 12/31/80 and 12/31/81.

III. Reports

A. What reports presently filed by AT&T with the FCC would be modified after the separation of XYZ, Inc.? How would these reports be modified?

B. Describe the reports which AT&T contemplates filing on a periodic basis to facilitate the monitoring by the FCC of the intercorporate transactions of XYZ and its compliance with the separation conditions.

C. Indicate those points in the automated accounting system where the FCC could develop audit programs to test the validity of the various systems used to record and classify charges to XYZ, Inc.

MICROFILMED FROM
BEST AVAILABLE COPY

Mr. ENGLISH. Thank you very much Mr. Fowler. In your testimony you stated, "Where accounting mechanisms are used, the FCC has placed the onus of developing them on AT&T." Doesn't the Commission still have the duty to make certain that any mechanism that AT&T develops is an appropriate one and does not mask cost and that it does attract the full funds and information?

Mr. FOWLER. Yes, sir, we have our responsibility reviewing the cost accounting systems that AT&T proposes to assure their systems accurately reflect cost of shared services, and thus facilitate the FCC monitoring responsibility. I am attempting to distinguish, Mr. Chairman, between the FCC itself having to come up with these very complex cost accounting systems as opposed to performing a very careful, scrupulous review function while putting the burden of coming up with those systems on AT&T. That is what we have done. We have elected the latter course. We can guard the public interest and make sure that the costs are accurately reflected and yet put the burden of resource requirements on AT&T and lessen our resource requirements.

Mr. ENGLISH. Exactly how do you plan to evaluate these costing methodologies that will be used by AT&T and the system that they should come up with? What criteria are you going to use to determine what is appropriate?

Mr. FOWLER. I will ask Mr. Epstein, the Chief of the Bureau, to give you the chapter and verse on that.

Mr. EPSTEIN. Mr. Chairman we have two specific examples which are underway right now. Within 75 days of the adoption of the October 7 reconsideration, AT&T was to come in with its plan for shared installation and maintenance. They did. Our team of experts in the Computer II Task Force carefully evaluated it, pointed out problems which they found; we sent out a very specific information request to AT&T where we thought that there were particular problems, and at the same time we put the plan out for public comment so that competitors and members of the public could also comment on the plan—to see whether it did encompass those adequate safeguards. Once we have all that material together the Commission will have to make a decision based upon the Bureau's and the task force recommendation as to whether those safeguards are within the plan. I would like to point out one other thing also. I think there is a matter of incentive here. AT&T very much wants to be able to provide these competitive services and I think that we are in a position where AT&T has every incentive to come up with plans and costing methodologies which will satisfy our concerns.

Mr. ENGLISH. What are the criteria? What criteria are going to be used or have you been using to judge this plan—this proposal?

Mr. EPSTEIN. The criteria are that we have to assure ourselves that we can protect the public against cross-subsidization and that the monopoly ratepayer will not be burdened by the competitive services.

Mr. ENGLISH. I suppose that it seems to me that if a fellow really wanted to understand how these systems worked and wanted to make sure that he understood what was going on, that he would probably have to come up with a system that he felt comfortable with. It seems to me that the FCC is starting out in trouble by letting AT&T come up with its accounting system. It all depends upon how well FCC understands the system and, certainly, accounting systems can be extremely complicated, extremely difficult to oper-

ate, and to understand. I am not accusing AT&T of this but if one so desired to come up with a system where one could do a little hiding here and there, it is not that hard to do—not with a system as large as that of AT&T. What it all comes down to is that you have not given me any criteria that make me feel confident that you are assured that you are protecting the public from the potential problems you outlined. The criteria that you are laying out is very general.

Mr. EPSTEIN. Mr. Chairman, it is not a matter of trust. Our experts are in there dealing with this on a day-to-day basis. For example, in this preoperational expense area for the new enhanced service offered by AT&T, we have our task force in there performing an audit, actually going over the records to assure that numbers are accurate. Again, I do not think we are taking anything on trust, I think we have our staff in there helping develop the system—going over it and I do think we have acknowledged experts at the Commission.

Mr. ENGLISH. How long has it taken the Commission to develop its uniform system of accounts?

Mr. EPSTEIN. The project has been underway since approximately 1978. There have been some false starts on the project. When Chairman Fowler and I came to the Commission, we reviewed the whole process and I think made some decisions which would get that project off dead center and moving. On October 7 the Commission adopted a decision—setting up a task force made up of members of all the relevant industries and consumers and members of the public which would help revise the uniform system of accounts.

Mr. ENGLISH. What kind of resources does that take?

Mr. EPSTEIN. That takes a fair amount of resources. It is under the supervision of our accounting and audits division. We have established a task force there and that is again a resource which we have asked Congress for additional money to implement. We have requested an additional seven positions for our fiscal year 1983 budget for the sole purpose of augmenting our present accounting staff for the USOA project.

Mr. ENGLISH. Have existing accounting systems of AT&T proven satisfactory in determining who bears the cost within AT&T's current structures and how successful has the Commission been in understanding AT&T's existing accounting systems?

Mr. EPSTEIN. I think it is generally acknowledged that the USOA system that is in effect now is outmoded, technologically outdated and not really capable of coming up with cost of service information, which is why Congress has indicated to the Commission, and the Commission itself recognizes that it is extremely important that we do get a new USOA in place as quickly as possible.

Mr. ENGLISH. When do you think that that is going to be in place?

Mr. EPSTEIN. We have a tentative schedule—we are to report back to Congress within 1 year of the last appropriation. I think that to be fair about it I will have to say that the entire new USOA will not be in place for another 3 to 5 years. We are proceeding in phases. The first phase that we are looking at is what is called the plant accounts and I think we are scheduled for a final decision on that within the next 18 months.

Mr. ENGLISH. Do you really feel that under the current accounting system that the FCC understands exactly who bears all the cost within AT&T systems now?

Mr. EPSTEIN. As I indicated before, it is clear that the present accounting system is not satisfactory—the present USOA is not satisfactory.

Mr. ENGLISH. Does that mean that you do not understand it?

Mr. EPSTEIN. There are two separate concepts here. One of them is the USOA which is the accounting records and then from the USOA what is derived is the cost of service on a service-by-service basis. We have another proceeding going on which deals with that and that is called the cost allocation proceeding and the cost allocation manual. That takes the data from the uniform system of accounts and from separations and translates that data into cost of service. Now in our uniform system of accounts proceeding, what the Commission has determined to do is to update the uniform system of accounts and at the same time develop different methods for translating the accounts into cost of service.

Mr. ENGLISH. Let me put it another way. Do you feel comfortable with AT&T's accounting system?

Mr. EPSTEIN. With its present accounting system?

Mr. ENGLISH. Yes.

Mr. EPSTEIN. No, we are not.

Mr. ENGLISH. Mr. Fowler, you stated that, "the burden is on the FCC to insure" that AT&T's accounting proposals "accurately reflect cost and facilitate the FCC's ability to audit and monitor transactions." Exactly how large do you expect this burden to be in terms of resources? How many work years and how many dollars?

Mr. FOWLER. That is a fairly difficult one to appraise accurately. Jim, do you want to handle that one?

Mr. MULLINS. That is ongoing now. We have four accountants and two economists. In fact, we added an accountant yesterday. In addition to that we will shortly be hiring a systems analyst and three accountants with experience in computer assisted auditing.

Mr. ENGLISH. That still does not tell me how many work years and how many dollars you expect this thing will take or even to accomplish what the Chairman has laid out as the requirements for the FCC; namely, to reflect accurately the cost and facilitate the FCC's ability to audit and monitor transactions. How much is that going to take in the way of work years and dollars?

Mr. MULLINS. I have not worked it out in terms of work years.

Mr. ENGLISH. How many people do you figure it is going to take?

Mr. MULLINS. I think once the system is going—once the staff has reviewed AT&T's systems and develops its own systems and audit plans, I do not think that it will require a heavy staff resource.

Mr. ENGLISH. The problem I am worried about is what it is going to take to get us to that point.

Mr. MULLINS. Certainly. I think that right now the resource requirement—the development of these systems requires the heaviest resource requirement. If we do that properly the system should pretty much work by itself with periodic report filings from AT&T and staff monitoring of AT&T's transactions including samplings of their relevant data basis.

Mr. ENGLISH. Yes, but you are still not telling me how much it is going to take to get us to that point.

Mr. MULLINS. At this point as I mentioned, we have two economists.

Mr. ENGLISH. How much is it going to take to accomplish this job?

Mr. MULLINS. Well, altogether at this point, we are projecting eight accountants supplemented by the entire task force.

Mr. ENGLISH. How much is that?

Mr. MULLINS. We are at 11 now. No I misspoke—I am sorry. We have eight accountants on the audit which includes the development of control mechanisms which we think are required for the oversight of transactions between the separate subsidiary and AT&T. In addition to that, we have four economists.

Mr. ENGLISH. Four economists?

Mr. MULLINS. Yes. We have four lawyers, including myself, and we are adding an additional lawyer and a systems analyst.

Mr. ENGLISH. Add one lawyer and one systems analyst?

Mr. MULLINS. Yes. Now that is not going to add up to 17 because three of the accountants that we have now are from the accounting division. We have not yet hired the accountants that we staffed for this project and we expect that for this intensive period we are going to have to have more than we require in the long run.

Mr. ENGLISH. All right. That adds up to 18 staff members.

Mr. MULLINS. I think it might be helpful if I could provide you with some of our current personnel and budgetary information on this. Specifically at this point in time for the Computer II working group, there are 18 positions that have been set aside. Of those, three have been filled, one has been posted and five positions are presently being classified. We have taken action on 9 of the 18 positions. With respect to the uniform system of accounts, eight positions have been set aside at this point in time for this project and we have taken action on three of those eight positions.

Mr. ENGLISH. So you have nine vacant, right?

Mr. MULLINS. We have 11 people now, plus, as I mentioned, 3 temporarily assigned in the accounting division.

Mr. ENGLISH. You have 11 people and that would mean if my arithmetic is correct, you have 7 vacancies. So that means that you are not fully staffed with 11.

Mr. MULLINS. Correct. We are not yet fully staffed.

Mr. ENGLISH. When will you be fully staffed?

Mr. MULLINS. I expect we will be fully staffed in 6 weeks to 2 months time.

Mr. ENGLISH. Let us, for the sake of argument, make it 2 months to give you a little leeway. It will be 2 months before you will be ready to go on this, right?

Mr. MULLINS. We are going full steam ahead now. My point before was that we are borrowing from other resources within the Bureau until we have our own capabilities.

Mr. ENGLISH. So you are saying that you do not have 18 people right now, you have borrowed them, is that right?

Mr. MULLINS. Yes, and some of those positions differ from those that we expect to have for the long term. For example, we will be picking up a systems analyst.

Mr. ENGLISH. How many of these people, once you get this system in place, do you think you will be dropping? How many of the 18?

Mr. MULLINS. I expect that the 17 that we have projected are sufficient and therefore will return—or no longer have a need for the accountants that are from the accounting division.

Mr. ENGLISH. Wait a minute now. As I understand it, you are going to be monitoring an accounting system that will be set up by AT&T. Are you telling me that you are not going to use accountants to do that—you are going to use economists and lawyers?

Mr. MULLINS. No. We are hiring one systems analyst and three experienced accountants with their sole mission to monitor transactions between the separate subsidiary and other parts of AT&T.

Mr. ENGLISH. I thought you told me that you were going to send all of these accountants back to the accounting division—you were not going to need all of them.

Mr. MULLINS. The accountants that we have borrowed from the accounting division, I expect we will no longer need once we have our own accountants in place and we are past the implementation phase. Once we have developed a working system, the systems analyst and the three accountants that we have hired will be sufficient. If that is not the case, we will continue to rely on the resources of the accounting division or ask for an increase in number of support people.

Mr. ENGLISH. Let me approach this from a little different direction and maybe we can get this straightened out. As I understand it, you are making an extra effort right now to get this thing cleaned up and try to put together a system that is going to work. This problem requires an extraordinary number of people and you are hiring additional people. You have a total number which will eventually add up to 18. How long do you figure it will take you to put this together? How long is it going to take these 18 people? How long are you going to need 18 and whenever you reach the point of just monitoring, does that means that you are not going to need 18 anymore? It means that you are going to be able to get rid of some of those people, does it not? How many are you going to drop—that is what I am after?

Mr. MCKIE. Mr. Chairman, we have not made any plans to drop any number of people at any time. We are just going to have to see where we are and if we think we need those people to do the job, we will not drop any of them.

Mr. ENGLISH. Surely, if we are requiring a superhuman effort here and a lot of extra people are being added on just to implement this system, then you do not need all those people, if all you are doing is monitoring, do you?

Mr. MCKIE. I do not think we can make that judgment now. We are looking down the road a year into the future and if we do not need them, maybe we could use them elsewhere. If we do need them, I think we will just keep them to make sure we do the job right.

Mr. ENGLISH. To my simple way of looking at it, that seems to be waste. You have a lot of extra people—either that, or you are not hiring enough right now, one of the two.

Mr. McKIE. We think we have to hire these people right now to do the job right.

Mr. ENGLISH. I would agree with you on that, but I am just wondering whether you are gearing up for normal effort or whether you are gearing up for an extraordinary effort?

Mr. McKIE. It is pretty clear to us that in these times when our agency is losing numbers of people through budgetary cuts, the Common Carrier Bureau is actually increasing people. So, I do view it as the Commission making a commitment.

Mr. ENGLISH. My opening statement indicated we are coming at it from two different directions: We are going to pay the price either way we go on this. We either pay it now from the standpoint of regulation and FCC makes certain that we go step by step and we know that the public is protected. That would be great. FCC has done its job. If FCC does not do its job, the public is going to pay for it. They are going to pay for it later and they are going to pay through the nose. It is like that television ad, "you can pay me now or you can pay me later, but you are going to pay." The question at this point is whether or not you are set up to the point that you are going to be able to do the job, and do it far more cheaply than the public can do it later whenever they have to pay the price through the nose. That is the point that we are trying to make here. In relationship to what the rest of the administration does whenever you are considering that, that is a whole different ball game. I would agree with you that it is an unusual situation during these tight budgetary times to see any personnel increase, even one person. I am not looking at it in relationship to that, I am looking at what it means to the public in the long run. That is the difference I am getting at.

Let us suppose that the AT&T's accounting proposals are seriously flawed. Where will you get the additional resources to determine and evaluate the appropriate modifications?

Mr. FOWLER. Mr. Chairman, we will have those resources. In fact, we have those experts on our Computer II Task Force which is growing every day as we gear up. We have adequate people right now. This is a phased approach we are taking here. There is no rush to go to judgment on this. If we are not fully satisfied with the cost accounting systems that are proposed by AT&T, we simply won't approve them. AT&T wants to be involved in providing unregulated services. It has all the motivation in the world to get the systems right and they know that if they do not have them right and if they are not satisfactory to this agency, they will not be approved and they will not be able to participate in those new areas that are unregulated.

Mr. ENGLISH. Have you set a target date?

Mr. FOWLER. For what?

Mr. ENGLISH. For implementation.

Mr. FOWLER. There are different target dates—we have it in phases. Maybe I should turn it over to Mr. Epstein again to indicate the major ones.

Mr. EPSTEIN. Yes, Mr. Chairman, the major one is January 1, 1983. That is the major target date. Again as Chairman Fowler indicated, that is something within the Commission's control. I think

it has been stressed to me that if we are not satisfied, that date is not a date that is written in legislation.

Mr. ENGLISH. Well, I know. These target dates have a tendency to take on life of their own.

Mr. EPSTEIN. We have changed it once already.

Mr. ENGLISH. We are not going to get ourselves in the position where we feel as though we have to make a target date—that if we do not, that is a failure.

Mr. EPSTEIN. We will make every conscientious effort to do so, but that is not our final goal. Our final goal is under the Communications Act, protection of the public interest and that comes first.

Mr. ENGLISH. What you are telling me is that no matter what the inconvenience might be to AT&T, you are not going to implement this decision until you feel very, very comfortable with this procedure? Is that correct?

Mr. EPSTEIN. Yes, sir.

Mr. ENGLISH. Also, Mr. Chairman, in your prepared testimony you observed that:

> Because AT&T must obtain the necessary transmission capacity for enhanced services pursuant to tariff, Federal and State regulatory agencies retain their built-in mechanism for controlling the potential anticompetitive practices and so on.

Obviously the new services offered by AT&T will place additional burdens on the FCC's tariff process. How great will these additional burdens be and what resources will you need to respond to the increased burden; namely, in terms of manpower, work years, dollars and however you would like to phrase it?

Mr. FOWLER. Let me ask Mr. Epstein to answer that.

Mr. EPSTEIN. Mr. Chairman, I am not sure that I understand the question. With respect to the way that the Computer II decision works, is that if AT&T is providing an enhanced service—the service would not be a tariffed service. Our approval mechanism is through the approval of the capitalization plan—the very process that we are talking about now. Any new underlying transmission service, the point of the Computer II decision, would be the underlying transmission service and it would be a basic tariffed service—the kind of service that is being provided now and being monitored by our tariff division. There has been one new tariff filing which has occurred since we set the Computer II procedure in motion and that is a basic packet network tariff. That is nothing unusual and it is something that I think we can handle within our normal resources. I do not see the Computer II decision as placing an additional large increased burden on our tariff process.

Mr. ENGLISH. Well, again, I am quoting Chairman Fowler that:

> * * * transmission capacity for enhanced services pursuant to tariff, Federal and State regulatory agencies maintain their built-in mechanisms for controlling potential anticompetitive practices associated with the telecommunications network.

Mr. EPSTEIN. That transmission service which would be obtained by AT&T would be obtained under existing tariffs which are on file now for basic transmission services.

Mr. ENGLISH. So what you are telling me is that you do not think that there will be any additional burden? Is that what you are saying?

Mr. EPSTEIN. I do not see one in that particular area—any large increased burden as a result of Computer II in the specific tariff area.

Mr. ENGLISH. Isn't the resource question complicated here by the fact that neither the FCC nor State regulators have been successful in controlling potential anticompetitive practices? Do you not need more effectively applied resources at least just to do the current job?

Mr. EPSTEIN. I think again that what you are saying is analagous to the USOA question, perhaps. You are right, we do need to be very careful about cross-subsidization and other problems which might arise as a result of the Computer II decision.

Mr. ENGLISH. So, in your opinion, you are satisfied with the job that is presently being done from a regulation standpoint? Is that correct?

Mr. EPSTEIN. Mr. Chairman, in what particular area?

Mr. ENGLISH. In this particular area with regard to the transmission services. Do you feel as though you have been able to do the job without any problem?

Mr. EPSTEIN. In the tariff and costing area the Commission has been struggling over the last couple of years. This is the cost allocation manual proceeding we were talking about. The Commission in a particular docket adopted a costing methodology which was not particularly successful and last year the Commission rethought what was called FDC7 and adopted what was called the interim cost allocation manual as a first step toward getting a better handle on AT&T's costing methodology. Are we satisfied where we are? No we are not satisfied where we are. This is, I think, an area in which we are making progress. The cost allocation manual proceeding appeal was argued in court last week and we should have an answer from the court in the relatively near future as to whether the methodology that we are going forward with now is an appropriate one.

Mr. ENGLISH. Doesn't that mean, though, that Computer II will even further complicate this system? It is not going to simplify things for you. It is not going to make it any easier.

Mr. EPSTEIN. No, Computer II does not make anything easier. The costing questions that you are talking about deal primarily with the regulated services and the relationship among them.

Mr. ENGLISH. That is correct.

Mr. EPSTEIN. What we are talking about here in Computer II is the difficult problem. The problem we have been talking about this morning is that of separating out costing methodologies for the unregulated services. Yes, it is a complication.

Mr. ENGLISH. That is the point. You have had problems with that before. Computer II, it seems to me, is going to substantially increase the number of problems that you have.

Mr. EPSTEIN. We think that the public benefits of Computer II, as you indicated in your opening statement, are important. We also think that we have to proceed carefully. As the Chairman indicated, we are proceeding in phases. We have to take whatever steps we think we can to be able to bring these benefits to the public, while at the same time, as you put it, not making the public pay more later.

Mr. ENGLISH. The point, though, is that it gets down to ability to do the job. You know there is no way you can box off Computer II over here in one little section, and all these other problems in other little boxes, and just treat them separately. They all affect each other. They have an impact on the Commission—on your ability to do your job. The strain of Computer II is going to be impacted elsewhere, and that is what concerns us a great deal. That is, whether you are going to be able to do your job, and do it properly. Also the prepared testimony states, "The resources of the rest of the Bureau are available for this most important project." That is the Computer II project. How much of the rest of the Common Carrier work force do you expect to use in the Computer II program if things go well, if they go moderately well, or if they go badly?

Mr. EPSTEIN. Mr. Chairman, if it goes well we hope to stay primarily with the approximately 18 people on the Computer II Task Force supplemented on an as needed basis, which I hope will not be too much, by the rest of the Bureau. If it goes badly, if we have problems, as I indicated before, we have to put up our hand and say, we have to either come back to Congress for additional resources, or put off an implementation date, or do something to make sure the public is protected.

Mr. ENGLISH. I suppose then we come to the question, Mr. Chairman, if things go badly, would you be willing to come back to Congress and ask for additional resources?

Mr. FOWLER. If we needed them, yes, sir, unhesitatingly. I wanted to point out to you, Mr. Chairman, for fiscal year 1983, we have requested approximately $1,946,000 for implementation of Computer II, $246,000 for 11 additional positions, and $1,700,000, which includes $200,000 to develop a computerized data base which will be used as part of our monitoring effort and $1,500,000 for consultants to perform evaluation work. Essentially, we would use the auditing capabilities of outside independent accounting firms. So, we have several means of accomplishing the task, and it is not simply what resources we have internal to the FCC. There are other things that we can draw on, and assuming that Congress agrees with OMB that we ought to have these additional funds, then we will have these additional resources to engage Computer II.

Mr. ENGLISH. At what point will the use of other resources diminish the capabilities of the Commission? Do you have a priority with regard to the Common Carrier Bureau from which the resources will not be stolen, or are all other programs fair game?

Mr. FOWLER. Every program in our agency is fair game in the sense that we want to look at every program we have, to make sure that it makes sense and that resources required by that program can be justified. To that end, we have engaged in a rather extensive program evaluation effort over the past several months. It is still on-going. For example, in the Common Carrier Bureau we have prioritized each program from one to whatever the number is in order of importance. We have made those judgments already. We were forced to because of budgetary considerations. It seems to me that there are lots of programs in the Common Carrier Bureau where we can eliminate the commitment of personnel and concentrate them on more important tasks such as Computer II with no

discernible detriments to the public interest. In other words, I am suggesting that a lot of the programs simply do not make any sense.

Mr. ENGLISH. Could you give us some examples of that?

Mr. FOWLER. Well, I can give you specifics, and I would be glad to. For example, in the Common Carrier Bureau, I think we need to look at our tariffing procedures to see if we cannot streamline those, which would mean a savings in personnel. There are lots of reporting requirements we have in Common Carrier that we are looking at to see whether we can eliminate those where we are perhaps requiring too much paperwork, paperwork that is never used by the agency and is not relevant to our mission.

Mr. ENGLISH. Mr. Chairman, in your testimony you state "The sophistication of the accounting system AT&T relies upon initially would evolve as our oversight functions dictate." I would like to try to understand a little bit better what you mean by this. In what ways do you expect AT&T's accounting system to become more sophisticated?

Mr. FOWLER. If we find out that the systems that are being submitted don't do the job, we can always require AT&T to make them more sophisticated. I wish to bring up one other point that is relevant to your question. We are not only using our staff auditors and the outside accounting firm capability which I have mentioned which is targeted for fiscal year 1983, but we do intend to rely on carrier self-certification in many areas—and more importantly, on certification by independent auditing firms paid for by AT&T. So, we are using these primary tools as monitoring mechanisms in auditing procedures to make sure that Computer II will work. The 1983 budget request does include additional auditors for the FCC, and I mentioned the funds which we have committed for computer-assisted auditing systems. So, if we use the computer-assisted auditing system, our expert staff auditors, the outside auditing firm, self-certification, and independent accounting firm certification paid for by AT&T, we think we can do the job quite well.

Mr. ENGLISH. Let me understand this correctly, Mr Fowler. You are telling me that we are going to have an outside accounting firm check out AT&T, and AT&T is going to pay for it? In other words, it is going to be AT&T's hired accounting firm that certifies to you that everything is on the up and up. Is that right?

Mr. FOWLER. That will be part of what we rely on. An outside firm in the sense that it is an independent firm hired by AT&T, not an AT&T house firm, in effect.

Mr. ENGLISH. I know that all these accountants are honorable people, but you just might be able to find a crooked one somewhere if you had the inclination.

Mr. FOWLER. As you know certification means a lot, and one can be held liable for substantial sums if fraud or negligence is found. I feel very comfortable with certification. That is not the only thing we are relying on, Mr. Chairman; that is the point I want to make.

Mr. ENGLISH. I am glad you feel comfortable. A lot of folks have had their pocketbooks stolen relying on that kind of logic.

Mr. FOWLER. That is why we want to use our own staff auditors, our own outside auditing firm with $1,500,000 committed, which is a considerable sum over the next couple of years, and also to have

the computer program that we can use at various sensitive points to doublecheck the figures and the information that we are getting. That is another safeguard

Mr. ENGLISH. AT&T is developing this very sophisticated accounting system, as you said in your statement. We have been told here by your own folks that they do not really feel comfortable with the system AT&T has now. It seems that the word sophisticated when dealing with accounting also seems to conjure up visions of complications—extremely complicated, difficult types of systems. Sophisticated systems seem to be that way. The simple ones are not sophisticated for some reason. So I would get the impression from what you are telling me here that we are going to have a more sophisticated system than we have today—a system that today we do not really understand that well or feel comfortable with. Outside accounting firms hired by AT&T are going to be checking it out and we are going to assume that whatever word they give us is gospel. I do not know, Mr. Fowler. I think there are going to be a lot of people that have a problem with that kind of approach.

Mr. FOWLER. They might, Mr. Chairman, but we are also going to be relying on our expert staff auditors.

Mr. ENGLISH. As you said, your staff auditors have already told us that they do not really understand the system that you have now, much less the more sophisticated one.

Mr. FOWLER. I think we understand the system and we can improve the system. We have some of the best experts in the world on our staff and we are fortunate to have them. Also, I mentioned the use of an outside expert auditing firm hired by the FCC which I think will be a good safeguard, in addition to our own computer program. If we are not satisfied, as I said before, with what is submitted in any given case, there is no pressure on us whatever to go ahead and approve. We will not until we are absolutely satisfied, sir, that we are protecting the ratepayer there.

Mr. ENGLISH. If you are satisfied with the scenario you have drawn up here, I am getting concerned about whether or not we ought to feel comfortable about the decision at the end of the road. As I said before, this thing does not feel quite right to me to be honest about it. I am certainly not an expert in accounting. I know enough about accounting to know that one can certainly draw up a system that no accountant, no matter how good he is or how many degrees and credentials he has, can figure out from now until doomsday. It seems to me if we are going to let AT&T devise a system, they are going to have to explain the system to us. We will then hear from all of these people who are affiliated with outside firms being hired by AT&T. The easiest thing would be get one of your AT&T accountants that put the system together and put him out in private practice and hire him—he can just run you ragged.

Mr. FOWLER. Mr. Chairman, I understand what you are saying. Perhaps we can ease your concerns. I would like to give this specific discussion on how the auditing system and the review system works to Mr. Epstein.

Mr. EPSTEIN. Mr. Chairman we are focusing on the accounting aspects here also. There are a number of other things that I would like to talk about. That is one portion of the Computer II oversight and the way that Computer II is structured. What the Commission

did in the Computer II decision, was to adopt some structural safeguards. We have the separate subsidiary requirement and we have the transmission facility bar. It was a compromise decision, of course, between requiring complete divestiture to enter into these unregulated fields and requiring nothing at all. Once the Commission decided to go with the separate subsidiary approach. The question then became: "What can the separate subsidiary in AT&T share?" The more that they can share, the more difficult the accounting problems become. The less they share, the easier they are to audit from an accounting standpoint. What we did in the Computer II decision and its further reconsiderations, is that we have limited the kinds of things that the parent company and the separate subsidiary can share. What we have been focusing on now are those things which they can, such as installation and maintenance for a period of 18 months from the time that the decision is implemented, as well as administrative services. Those are difficult problems. We have also been talking about the Commission's lack of success with the old uniform system of accounts, which is a significant problem that the agency has had. There is a difference between dealing with that old, outmoded existing system, at least we believe there is, and being in, right now, monitoring development of the new systems where we think we can have a significant input. I think that it is within that context that we structured the Computer II decision. Also, there is the point that the Chairman brought up before—that we are taking this thing in stages. What we have before us now is what is called the ACS filing which is kind of a small bite of the apple. We do not have the big terminal equipment CPE plans. That is not due in until July. We are able to structure these accounting and other systems right now with the ACS service which gives us some comfort and ability to handle these things and perhaps to set up the accounting systems for what would be a bigger job when the CPE capitalization plan comes in for us. Again, we very carefully said that a big portion of what the FSS might have in the way of assets is what is called the embedded equipment—the embedded CPE or terminal equipment. What we did is that we said: "We do not think that we can get to that by January 1, 1983." That is a difficult problem—there are possibly very, very difficult detariffing and cost-subsidization evaluation problems. What we specifically did there is that we opened up a separate implementation proceeding so that we could handle that in a more responsible fashion.

Mr. ENGLISH. The bottom line is that you know as well as I do, that this is based on the premise that you are going to have an independent, competitive body. You set it up and laid it out. That is fine. We just want to make sure that that is exactly what it is. If that is not what it is, and it is getting something on the side, from Ma Bell, then we have real problems. I can assure you that in the end that that will be found out—if that is what is happening. It seems to me that if we are going to go down this road, we are better off if we keep things nice and simple—everybody understands the game—everybody can see what is taking place and all the cards are on the table. Whenever I start hearing about sophisticated systems and when I start hearing that your people are not that comfortable with the system that is presently there, and when

I start hearing about outside accountants coming in, do the verifying, and being paid by the outfit that they are checking out, I get a little concerned. I think that will raise a few eyebrows, to be honest with you. Maybe you know what you are doing on that. I would hate for us to head down this road and find out that, in effect, what we are doing is self-certification with regard to whether all the rules are being obeyed or whether a little window dressing is being thrown out for the public—a little window dressing to keep Congress happy and keep the public happy—and what we are seeing is a verification when we do not have a verification at all because these are tight times from a budgetary standpoint. As I said, in the long run, the price is going to be a lot higher. It may not be this administration that discovers it. Far too often it seems as though that is what we do—we live for the shortrun economy on something like this. We will let some other administration down the road worry about the price. In the end, the American people have to pay the price.

Mr. EPSTEIN. I have some people working very hard to make certain that it is not window dressing. We certainly do not in any way intend for it to be such.

Mr. ENGLISH. I hope you are right. Have you determined the criteria that the Commission will use to review and evaluate the written documentation of the transaction between subsidiary and the parent?

Mr. MULLINS. Written documentation; yes. We have had discussions with AT&T about how the transactions would be documented by the separate subsidiary and by the relevant part of AT&T that performs the transaction on the subsidiaries we have. Therefore, we are building into this system cross checks.

Mr. ENGLISH. You say that the resource projections on Computer II are "guesstimates," is that correct?

Mr. EPSTEIN. Yes, sir.

Mr. ENGLISH. We get into this business with regard to outside experts, such as major management consulting or accounting firms. What resources do they estimate it would take to properly audit the transactions between the parent subsidary and to police the boundaries between the regulated and unregulated activities of common carriers under the Computer II model? Can you tell us what kind of estimates you are getting out of those private outfits?

Mr. SMITH. I think, Mr. Chairman, that, in terms of outside auditing assistance, we are in the stage of ascertaining internally what we want those outside entities to do and when we develop a system of what we think is necessary—let me back up, there are two aspects. One is the computer-assisted auditing program. We would like to go out and speak with outside firms and have them work with the staff in developing test points where the staff can check the reliability of the accounting systems. The second area where we might utilize outside consultants is in the area of the evaluations associated with embedded CPE, which is more long term. We are, I believe, very shortly going out and will be initiating contacts with firms to see how we should go about looking at computer-assisted programs.

Mr. ENGLISH. I assume then that you think that this is the point that I was trying to get at, and I also assume that you will be asking those firms what they estimate the cost will be?

Mr. SMITH. Definitely, yes.

Mr. ENGLISH. To date you have not obtained those kinds of estimates from outside firms? Is that correct?

Mr. SMITH. That is correct.

Mr. ENGLISH. That is what I was getting at.

Mr. MCKIE. Could I clarify one point on that particular issue?

Mr. ENGLISH. Surely.

Mr. MCKIE. As the Chairman pointed out, we have requested $1.7 million in program assistance funds and that includes $200,000 for the computer expert for the data base they referred to—that is in 1983. As we put together our fiscal 1984 budget estimates, we will be asking the Bureau for any additional resources they may need in 1984 to continue this program. Those are only 1 year expenditures—$1.7 million in addition to the positions which are in our 1983 budget. To put the whole thing into perspective, we are talking about 11 additional positions, but the Bureau has allocated 18 positions to Computer II. In addition to that, we have asked for and they have allocated eight positions for the uniform system of accounting. We are talking about a total of 26 positions for these two interrelated programs, plus $1.7 million in fiscal year 1983 funding for outside program assistance.

Mr. ENGLISH. When do you think you will be going to these outside firms and trying to get these kinds of estimates? Do you have any idea?

Mr. SMITH. It is my understanding that some initial contacts will be made next week.

Mr. ENGLISH. Let us suppose that you found that you needed substantial additional resources to carry on Computer II responsibilities and let us suppose that you need an additional $1 million. Would you come to Congress, Mr. Chairman, for supplemental appropriations?

Mr. FOWLER. Yes, sir, we would.

Mr. ENGLISH. Also, Mr. Chairman, how long does it take for a request for additional resources from Congress to be given? How long does it take to hire the new people and how much of a lag time is there? Once you make a decision and say you need an additional $1 million for these things, how long will it take you to get the supplemental through Congress and get the additional people hired? Just estimate.

Mr. FOWLER. It depends. There are a lot of variables. It could take 6 months, or it could take a year or even longer. It depends upon the committee and how well we persuade the committee—as well as on what OMB's position is.

Mr. ENGLISH. Of course, under the supplemental it would not take you more than a year because you would simply put it in the next fiscal year's budget, would you not?

Mr. FOWLER. We would probably be forced to do that.

Mr. ENGLISH. Earlier you indicated that you had not had time to analyze the impact of the proposed AT&T antitrust settlement on your resource requirements. Now that more time has passed, can you estimate the major effects of the settlement on your regulatory

activities? For example, on developing an access charge system, deregulating imbedded customer promises or premise equipment and making adjustments in AT&T rate base to reflect the equipment transfers between AT&T and its divested local operating companies. Can you give us some kind of feel for that?

Mr. FOWLER. Obviously the consent decree has had an immediate impact on the agency. We have spent a considerable amount of time analyzing the consent decree. We have had informal discussions with the Department of Justice. You may know that we have had some hearings on the Hill before Congressman Wirth on the consent decree. We have prepared and published a study on the impact of the consent decree, what it means, what its impact is on the agency's existing proceedings. We have put substantial resources into that. We have had numerous briefings of the Commissioners. We intend to have en banc proceedings before the agency to get the comments of the public and interested parties on the impact of the consent decree and what the agency's role ought to be. Clearly we will be involved in the consent decree implementation and we are committing significant resources right now to preparing to file comments before Judge Greene who has jurisdiction over the consent decree. Now, beyond that I would turn to Mr. Epstein on the specific question which you raised.

Mr. EPSTEIN. Mr. Chairman, you have raised a specific number of proceedings. One of them is the access charge tariff and the other one would be the implementation proceeding which dealt with imbedded customer premises equipment. Those are two proceedings which we already have before us and will not take additional resources. There are two proceedings which we have in motion now. It is still a little too early to tell what the FCC's specific responsibilities will be under the consent decree. There is a possibility that if individual access charge tariffs are filed on an exchange-by-exchange basis, there would be a considerable burden. We will be taking appropriate positions in the Tunney Act proceedings to make our position known on that and also what the FCC's role will be in the implementation of the plan of divestiture. The Commissioners have expressed to me that they are rather concerned that the FCC fulfill its statutory responsibility in that area.

Mr. ENGLISH. The Common Carrier Bureau staff, as I understand it, has urged that the Commission become more actively involved in the settlement proceedings. What are the resource consequences of the Commission's involvement and will the funds and personnel be diverted from Computer II or some other program?

Mr. EPSTEIN. On a short-term basis, it is a matter of getting involved in the Tunney Act proceeding before Judge Greene. Therefore, it will not take away resources from Computer II. Depending upon the shape of the final decree and the extent of the FCC's participation, it may well require some additional resources. We will not take them away from Computer II.

Mr. ENGLISH. How many work years and dollars, Mr. Chairman, will be required to evaluate the financing plans and methods of funding of the ACS?

Mr. SMITH. Are you asking how much AT&T is proposing to fund the separate subsidiary at this stage?

Mr. ENGLISH. No, how many work years and dollars are going to be required to evaluate the financing plans and methods for funding it?

Mr. MULLINS. We are doing that now Mr. Chairman. The filing was made on November 30. Our first step was to evaluate AT&T's request for confidentiality. From that we spent a good deal of time analyzing the filing and put to AT&T a number of information requests. At this point on the ACS filing itself now, we have a staff of four, one economist, and three attorneys who are primarily assigned to the analysis. In addition we have the back-up of the accountants I mentioned and our economists.

Mr. ENGLISH. How long will it take for four people to do this job?

Mr. MULLINS. We are aiming to have a recommended decision to the Commission sometime in May.

Mr. ENGLISH. You started in November, did you say? Is that what you said?

Mr. MULLINS. Actually December.

Mr. ENGLISH. So December through May.

Mr. EPSTEIN. If I might clarify that a little bit the ACS filing is a discrete filing which was made by AT&T as its first enhanced service. We are viewing that as interrelated—the interrelated questions of the shared installation and maintenance and shared administrative as part of that project. So basically, the Computer II Task Force, Jim was correct in answer to your specific question of how many people are actually working on that one part of it. We basically have the Computer II team working on the overall project, the ACS portion of which is an important part right now.

Mr. ENGLISH. That is what we were trying to tie down. It is what the ACS was. So do you agree with his answers, four people, December through May? Is that right?

Mr. EPSTEIN. Specifically on the ACS filing?

Mr. ENGLISH. That is what we are asking.

Mr. EPSTEIN. Plus the auditors we have out now doing an audit of the preoperational expenses of ACS.

Mr. ENGLISH. How many of those do you have?

Mr. EPSTEIN. Four people.

Mr. MULLINS. Four auditors and two economists.

Mr. ENGLISH. I see. How many work years and dollars will be required to assess the effects of financing on capital costs in ACS?

Mr. EPSTEIN. I don't know if we can separate it out, particularly by work years. That is an important part of the ACS analysis and evaluation as to whether there will be an effect on regulated service. Again, that is one of the questions we put to AT&T in our informational request and that is one of the questions that is out for public comment right now.

Mr. ENGLISH. This may fit into the same category. How many work years and dollars will be required to evaluate the asset transfers necessary to establish ACS?

Mr. EPSTEIN. That is part of the same overall project.

Mr. ENGLISH. How many work years and dollars will be required to evaluate the developmental cost of ACS?

Mr. EPSTEIN. Specifically, that is what I was talking about when I was talking about the audit of preoperational expenses. That goes to that very question.

Mr. ENGLISH. We will not have that until May either?

Mr. EPSTEIN. That is right. May is what we are projecting. The Commission will not give approval until it is satisfied.

Mr. ENGLISH. How many work years and dollars will be required to evaluate the long-term debt and equity ratio objectives of ACS?

Mr. EPSTEIN. It is part of the same issue and the same number of people are working on that issue.

Mr. ENGLISH. Why have not such task projections been made for the first major effort under Computer II? It would seem to me that this would be already done and out of the way before it got to this stage.

Mr. EPSTEIN. That is what we are engaged in right now. The projects which you just pointed out are the projects which the Computer II Task Force is engaged in at the present time.

Mr. ENGLISH. In your statement before the subcommittee last September, Mr. Chairman, you emphasized the importance of international conferences and meetings stating:

> It is imperative that the United States be aware of all the conferences, to participate in most of them and to devise policies and strategies in order to shape the results which are consistent with our national interests.

There are some 20 international conferences in the 1980's involving the ITU alone. How could we expect the fiscal year 1983 travel budget request of $110,000 for staff travel to provide for adequate preparation and representation for the United States at the approaching international conferences and meetings?

Mr. FOWLER. We have to make choices as to how many people we send and to which conferences. It is a matter of establishing priorities. Some of our travel money has been reduced in the domestic and international areas, but I do not view our capability to be able to represent the U.S. interests as having been in any way materially or adversely affected.

Mr. ENGLISH. Your statement last September said "* * * be aware of all of these meetings and participate in most of them."

Mr. FOWLER. We do.

Mr. ENGLISH. You are going to be able to participate in most of these meetings with this kind of a budget?

Mr. FOWLER. Yes, sir.

Mr. ENGLISH. How many meetings do you figure we will have in fiscal year 1983?

Mr. FOWLER. We have the ITU Plenipotentiary which carries over into fiscal year 1983, the ITU Mobile Services WARC, in February 1983, the Region II Satellite RARC which is in Geneva in June and July 1983. We will attend the U.N. Outer Space Committee meeting in March 1982. Those are probably the major ones.

Mr. ENGLISH. Is that four?

Mr. FOWLER. No; there are others of lesser importance or lesser timing preference—that is, supportive meetings, preparatory meetings, and the like.

Mr. ENGLISH. Do you want to add to that?

Mr. SCHAEFER. Yes; Mr. Chairman. The additional meetings involve the ITU's two autonomous bodies, the CCIR and the CCITT. One is a committee on telephone and telegraph, the other a committee on radio. These largely technical committees engage in pre-

paratory work for the major world conferences. The meetings do take place on a yearly basis. Each consists of a number of study groups in particular subject areas. We have, and will continue to participate in these as well. In addition there will be bilateral meetings. For example we have regular bilateral meetings with Canada and Mexico on radio communications issues.

Mr. ENGLISH. How many meetings will that be?

Mr. SCHAEFER. I guess for fiscal year 1983 it would be, in addition to what the chairman made reference to, my guess would be another five or six meetings of that kind.

Mr. ENGLISH. Are you going to have five or six?

Mr. SCHAEFER. Those meetings are——

Mr. ENGLISH. How many people do you figure you have going to them on an average?

Mr. SCHAEFER. The Commission on an average sends three or four people.

Mr. ENGLISH. Three or four people, I see. So you have 10 meetings you are going to make out of 20 international conferences according to our count. That means you are going to attend one-half of them.

Mr. SCHAEFER. There are 20 in the decade of the 1980's.

Mr. ENGLISH. How many meetings do you think you will have during fiscal year 1983?

Mr. SCHAEFER. As the chairman mentioned, there are four major meetings and perhaps one-half dozen lesser ones. Clearly the one-half dozen meetings, in terms of resources, are substantially less demanding.

Mr. ENGLISH. According to some quick arithmetic, that comes to an average of about $2,000 per representative or employee of the FCC to an international meeting. I do not know what air rates are these days but it seems that an international meeting will cost more than $2,000 per person.

Mr. SCHAEFER. The $2,000 figure is probably accurate if you are talking about transcontinental flights, per diem, and so on. The other meetings which I made reference to are bilateral meetings with Canada. These are substantially less costly. I do not know how the figures work out.

Mr. ENGLISH. Does $2,000 per person sound about right for the average—for an airline ticket to fly to the site of the meeting, per diem, and remaining included expenses?

Mr. SCHAEFER. That sounds like a reasonable amount.

Mr. ENGLISH. Overall the 1983 budget proposals to Congress contemplated a 30-percent reduction from this fiscal year for international activities resources. The cuts are particularly acute in the common carrier, broadcasting, and the travel budgets. Were these cuts made as a tradeoff to assure greater funding for Computer II or other new initiatives?

Mr. FOWLER. No, sir; they were not. We will be able to meet our international travel obligations. In the past, there have been instances in which every bureau sent one of its own people to a particular conference when, looking at it from an overall perspective, it would not have been necessary to have all of those people there. We have established under the direction of Mr. Schaefer an international telecommunications coordinating committee within the

agency. One of the things that committee does, among other things, is look at the overall perspective of the agency, to determine who should go to particular conferences. That may mean that someone who had gone from a bureau before to a conference would not go this time because he is not really essential. We will still have the proper representation. We can also reallocate funds from one bureau to another if the committee so desires. We have more flexibility than we had in the past because this committee is actively tracking our international travel fund needs and can make adjustments as we go. I think that we will be able to adequately represent our vital interests at conferences in fiscal year 1983.

Mr. ENGLISH. That sounds to me like you had a lot of people going over for a joyride. They were getting a free ride off the taxpayers, going over and doing a little touring and enjoying the good life—living it up overseas. Is that what we had taking place?

Mr. FOWLER. No; I do not think that that is the case. I think the case is that we had some duplications that simply reflect that, while it is nice to have someone in the bureau who has some interest in being there, attend a conference, and get a firsthand appreciation of the issues and problems involved, it is not always absolutely essential. We must distinguish between wants and needs. In the present case we are satisfying our needs. Things that might be nice and might be helpful we have eliminated if they are not essential to our mission.

Mr. ENGLISH. Also, if I remember correctly, we had a hearing last fall and we got into the question of the international conferences. In all too many cases we kept hearing that the FCC was not represented or that the particular part of the FCC which was needed to give input was not represented. Consequently, the U.S. interests were either just not being voiced and protected, or they were being represented by agencies and departments which really did not know much about it. Is that correct?

Mr. FOWLER. That was before my watch, I hope, Mr. Chairman.

Mr. ENGLISH. Do you agree with that assessment? You have heard criticism along that line.

Mr. FOWLER. I think it is a very fair criticism that in the past agencies, we were not very well coordinated with one another. There was no action planned to make sure that all vital interests were considered. Advisory committees were not set up to permit the industries involved to give their input on issues which concern them. Then there was improper planning and preparation for the international conferences by the delegations themselves. I think we have addressed that. I think that we have only had one international conference of major significance since I have been chairman. That was the Rio Conference on MF broadcasting which occurred this past November. I think we had good results there. We had objectives, we had an action plan, and we did a good degree of coordinating with the other affected agencies including NTIA and State.

Mr. ENGLISH. You had a 30-percent reduction in this area. I appreciate the idea that you are going to be able to do more with less money, but I sincerely doubt that you will get bargain-basement flights to international conferences. I do not know where your people stay when they go.

Mr. FOWLER. You see, we put them in these crates to send them. [Laughter.]

Mr. ENGLISH. I am going to be interested in what kind of crates you put them in.

Mr. FOWLER. The ones that they do not use hooks for.

Mr. ENGLISH. I will be very interested to see what kind of accommodations they have once they get over there. If you think you can attend more conferences with a 30-percent reduction in your travel budget, I think you are in for a rude awakening.

Mr. FOWLER. I think the savings are in the area of eliminating those who are not essential.

Mr. ENGLISH. That is what I said. The criticism that I have heard is that the people who ought to have been there were not there even before the reduction. This either means that you had an awful lot of people over there who did not belong over there and should have not been there in the first place—and I can only assume they were being given a joy ride, they call them junkets in Congress but I do not like to use that word. Surely you did not have all the FCC employees over there on junkets while the essential folks were left at home. Something is wrong some place and I assume from what you are telling me we are going to leave the nonessentials home. We are going to finally send all those who deserve to be there. Now that means there will be full representation on less money, the type of representation that was needed to voice the needs of communications within this country and determine the policy issues affecting communications within the United States. I assume that is what you are telling me. I am looking forward to the results on that. I hope you are right. I am skeptical on that too.

Mr. FOWLER. I understand that and we submit to you that we can do what we have to do. If we had to take cuts to where we could not do that we would let you know. However, take the Rio conference which just ended. There, instead of taking lots of engineers, we did something new. We effected a computer linkup. We had a terminal in Rio de Janeiro and by satellite we had our computer back at the FCC able to run different technical programs through the computer overnight. This was of great use to the conference delegation. At the same time we did not have to take down numerous additional members of our home team. They stayed back here and were able to give us real time information. So, not only do we want to eliminate those who are nonessential but we can use new technologies to get things done and to do better with less.

Mr. ENGLISH. Is that how we were able to double the travel allowance for the Commissioners while we cut the staff by 21 percent?

Mr. FOWLER. I do not think that we have doubled the travel allowance—in fact I believe that it has gone down over the years.

Mr. ENGLISH. Now you are telling me that the travel allowance for the Commissioners has gone down in the last 2 years?

Mr. FOWLER. I believe that is the case. I do not have those figures here.

Mr. ENGLISH. We are quoting the General Accounting Office when we say it doubled.

Mr. CAMPBELL. I have that section of our budget. In 1983 we are estimating that $43,000 will be allocated to Commissioners' travel. In 1982 we estimate that $57,000 and in 1981 the actual is $55,000.

Mr. ENGLISH. Are you saying that the General Accounting Office does not know what they are talking about?

Mr. CAMPBELL. I am simply quoting the figures that we have.

Mr. FOWLER. May I take that one on?

Mr. ENGLISH. I am sure that the General Accounting Office will be delighted to here that as well. We will have to check and see where they got their information.

Mr. FOWLER. I believe that they are incorrect.

Mr. ENGLISH. In its budget submission to OMB the FCC requested funding for 17 positions for the ITT rate case, 2 positions for reciprocity enforcement, 5 positions for land mobile licensing as well as specific funds for temporary commissions for public broadcasting. OMB denied these requests. However, the Commission accomplished the task for which additional resources were sought. Can the Commission accomplish these tasks without additional resources?

Mr. FOWLER. On the alternative funding item, I believe we asked them for $500,000. What we have attempted to do is to obtain those funds within the agency by modifying programs that are of a relatively low priority, by using in-house printing, and so forth. We have been able to come up with $206,000, to be exact, for the alternative funding committee. It is not the $500,000 that they wanted. They had a "wish list" that was fairly long—we cut it down to what we thought the essentials were. I think that Chairman Quello feels that he can live with that funding amount.

On reciprocity, we have set up informally within the agency a group that has been studying the issue. So, even though we did not get that funding, we used people within the agency and reprogramed them to work part time on reciprocity. They meet regularly, following the situation as it pertains to events here in Washington and around the world, especially legislative initiatives reciprocity. I cannot give you an answer right now to the land mobile question you asked, Mr. Chairman. I do not have my expert on private radio here, but we could supply that information to you. Now I will turn it over to Mr. Epstein for the common carrier item.

Mr. EPSTEIN. I believe to the extent that you were talking about land mobile and common carrier cellular, for example, that could have been one of the items that you were discussing. The Commission has made the commitment, just this last week, to allocate other people within the agency, perhaps some from our Mobile Services Division or some from the Private Radio Bureau or elsewhere in the agency to the Office of the Administrative Law Judges for the express purpose of expediting the land mobile cellular type applications. The other proceeding that you asked about is the ITT rate case. There was some controversy within the agency about how that case should be handled—whether or not we should have a full rate base investigation or whether or not we should have a rate of return investigation first and then depending upon the outcome of that, later go into a rate base investigation. After some discussion, the Commission decided to go into a rate of return investigation first and adopted streamlined procedures where that

could be handled. The benefit of that was that there was a proceeding before which questioned whether or not ITT's rate of return were given an assumed rate base and expenses were too high—and whether or not that should be lowered—passing along perhaps potentially lower rates to the public. That was the route that the Commission decided to pursue. That is not a particularly unusual thing for the Commission to do—to inquire separately into a carrier's rate of return. We have done that for AT&T every few years and we have had a rate of return investigation without having a full rate base investigation.

Mr. ENGLISH. The fiscal year 1983 budget states that the manpower cuts in the spectrum management area will not affect program results because the workload will be processed by computer. Is the computer support currently available? If not, will it be in place before the manpower cuts are affected? Will the impact of the spectrum management, if not in fiscal year 1983 manpower losses, be alleviated by using the ADP support?

Mr. FOWLER. Mr. Chairman, I would like to have Alan McKie, our Deputy Managing Director, answer that question.

Mr. MCKIE. As part of our long-range plan to implement what we call the distributed data processing network, we have purchased a number of mini-computers this year. These ultimately will all be connected with each other and also with our main Honeywell computer. One of these, one of the first to be installed, was installed at the OST laboratory in Laurel, Md. It is currently being used for type certification and other application type processing as well as for other automation needs at the laboratory. I believe their resource projections were based on the installation of the microcomputer at the laboratory in Laurel, Md.

Mr. ENGLISH. Mr. Chairman, I suppose what we come to is that some people, at least I do, and I would imagine others do, keep wondering if budget cuts can be made with regard to travel or anything else, if there must have been a lot of fat in the budget if there were a lot of travel taking place that should not have been taking place because it was not essential, in your own words. There were people that you did not need. A lot of services were being provided that were unnecessary. Would you characterize that as being an accurate assessment of the situation?

Mr. FOWLER. I think that I would state it differently, Mr. Chairman. I would say this. We had another administration that had certain priorities; we have different priorities; we have different priorities. We have five specific objectives. There are certain programs that in our opinion do not make any sense anymore. They were administered previously but we would question those now and ask whether or not we need to continue them. If we do not, we can make savings in terms of eliminating those programs and concentrating on important items such as Computer II which you very properly have focused upon. The second thing is that there are a lot of areas where we can improve our productivity. This has been done through the MBO program and also through the performance appraisal system which we have implemented that insists upon performance from each individual in our agency and makes their advancement and recognition at the agency dependent upon performance. In addition, I think that through program evaluation we

will not only be able to eliminate programs, but also modify others to make them more efficient. I am sure there may have been waste in the past and there may be waste now. I hope there is not a great deal of waste; we have looked very closely to make certain that there is no waste and that we do use our resources effectively and efficiently. It is not business as usual. We have to be careful and we have to stay on a budget. I think that that is a sound determination on the part of the Congress and the President. If we need resources for projects, absent which we could not protect the public interest, we would not hesitate to ask the Congress for those resources.

Mr. ENGLISH. That is the point that I am trying to make, Mr. Chairman—this issue of protecting the public interest. I do not really see that that changes with the philosophy of one administration to the next.

Mr. FOWLER. It should not and it does not with us.

Mr. ENGLISH. I am glad to hear that. You have specific laws on the books and they have been put there by the Congress and signed by the President and you have a responsibility to protect the public. The question is, what does it take to do that job? Given what you have told us here today, it would appear that the last administration wasted a great deal of money trying to enforce laws. You people are going to be able to do the same job more efficiently with less money. I hope you are right. I hope that you can. If you cannot, and we see the public interest slipping from the way that you carry out your duties and the FCC carries out its duties, I think you are going to have a lot of problems and you are going to have them very quickly. I think you have a major responsibility with the implementation of the Computer II decision. On the surface, it appears that you might be in over your head. I think you are taking a big chance in the way that you are dealing with your resources and the way that you plan to cover this. I hope that you can do it—I certainly wish you well. We will do our best to help in any way that we can. If you do find that you are getting to that point that you are in over your head—that you cannot quite cover all the bases with the resources that you have, I would like to think that you would make a commitment to the American people and to this Congress that you will come back and admit to the Congress that you need more help—and that the public's interest demands that you have the resources to do your job.

Mr. FOWLER. Mr. Chairman, I do not think that we disagree at all—I think we totally agree—except for the "in over your head" part. I think that if we get to the point where we feel we do not have the resources, we obviously will come to you.

Mr. ENGLISH. I thank you very much and I certainly appreciate your staff—you have been very helpful. We will submit some additional written questions.

Mr. FOWLER. We will answer them promptly.

Mr. ENGLISH. Without objection, the questions and answers will be made a part of the record at this point.

[Submissions to additional subcommittee questions follow:]

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

IN REPLY REFER TO:

The Honorable Glenn English
Chairman, Subcommittee on Government
Information and Individual Rights
Committee on Government Operations
Rayburn House Office Building
Room B-349
Washington, D.C. 20515

Dear Chairman English:

By letter dated March 17, 1982, you posed certain follow-up questions in connection with the May 3 hearing before your Governmental and Individual Rights Subcommittee concerning the FCC's implementation of Computer II and other issues.

Submitted herewith for the record in this proceeding are the Commission's responses to your questions.

Sincerely,

Mark S. Fowler
Chairman

Enclosure

MICROFILMED FROM
BEST AVAILABLE COPY

1. What is the total amount (in dollars) of administrative, installation, maintenance, and other costs which will be shared between AT&T and its separate subsidiary?

In prescribing a separate subsidiary requirement for AT&T, the Commission established the degree of separation which should exist between AT&T's separate subsidiary and affiliated entities. The subsidiary is required to have its own books of account and utilize separate operating, marketing, installation and maintenance personnel. The subsidiary is also required to have its own computer facilities for the provision of enhanced services. At the same time the Commission permitted AT&T to share certain administrative services with its subsidiary, such as, accounting, auditing, legal, personnel recruitment and management, finance, tax, insurance and pension services.

On January 13, 1982, AT&T filed its proposal for the services it intends to share with the subsidiary. Some of the proposed shared services go beyond those specifically approved by the Commission in its Computer II decision. It also indicated how it would allocate costs for various shared activities. AT&T did not provide, however, any dollar estimate for the total amount of sharing it proposed.

In a letter to AT&T dated March 22, 1982, the Chief of the Common Carrier Bureau asked for AT&T's estimates of the extent of the sharing proposed between the separate subsidiary and other AT&T affiliates for administrative and other services.

MICROFILMED FROM
BEST AVAILABLE COPY

AT&T has been requested to respond to the Bureau's letter by April 12, 1982. Sharing beyond that already specifically authorized by the Commission, of course, requires additional Commission approval.

With respect to shared installation and maintenance activities, the Commission has required that AT&T have separate installation and maintenance personnel. An exception was made for installation and maintenance for business customer premises equipment during an 18 month transition period. The purpose of this exception is to minimize any dislocations to the business consumer and provide the separate subsidiary with an opportunity to assemble a maintenance force as business evolves.

Because shared installation and maintenance is limited to business systems and will be shared for only an 18 month transitional period, staff evaluation has focused more on the proper allocation of costs than on the total dollar volume of that sharing.

1a. What have you done or do you plan to do to determine whether the allocation factors proposed by AT&T for shared costs will reflect fully the actual expenditures for regulated and unregulated services?

The staff has been reviewing AT&T's proposals for allocating shared costs. As part of the review process various questions have arisen concerning the method of allocation which AT&T has proposed. For example, a question exists as to whether AT&T's allocation factors might be inappropriate for the separate

MICROFILMED FROM
BEST AVAILABLE COPY

subsidiary in its start-up phase. The March 22, 1982, letter asks AT&T for additional information on that issue as well as on other aspects of its accounting proposal. Upon receipt of AT&T's response further staff evaluation can continue.

1b. Can you determine if the proposed systems are workable without first ensuring that they are auditable and that adequate audit capability will exist to verify cost assignments?

"Auditability" is, of course, a substantial component of "workability." A system which is not auditable clearly will not be workable. The burden is on AT&T to come forward with a system which is in fact auditable. Part of the staff's evaluation of AT&T's accounting proposals consist of ascertaining the extent to which a given system is auditable and includes appropriate control mechanisms that enable FCC monitoring of any accounting system which is ultimately approved. The FCC auditing activities will focus on verifying that AT&T's accounting procedures conform to the procedures approved by the Commission.

The extent of the audit capability the Commission will need to verify cost assignments over the long run depends, in part, on the extent of additional sharing authorized by the Commission. Our presently authorized auditing capability is adequate for present needs. If those needs increase we will request authorization to increase our auditing staff as circumstances warrant.

MICROFILMED FROM
BEST AVAILABLE COPY

2. Please describe the computerized data base you plan to develop to assist in Computer II auditing and monitoring. When will this system be in place? Apart from the $200,000 to develop that system, has money been included in the FY 1983 budget request to purchase outside auditing help?

The FCC intends to develop a computerized database to receive computer format (machine readable) reports and by appropriate manipulations assess the extent of sharing occurring between the separate subsidiary and other entities of the Bell system. By the use of appropriate programs to produce exception reports and other analytical tools, areas for further study can be highlighted.

One aspect of this effort will be the capability of accepting reports from intermediate steps in the accounting process to examine data flows and audit the carriers for compliance with the conditions of the Computer II separate conditions. Compliance auditing is distinct from the financial auditing done by outside auditors, and it is also distinct from fraud audits done by internal or external auditors. It involves the determination that financial amounts are booked in accordance with Commission orders so that the Commission can be assured that the separation conditions are not being breached, even if no material (as defined by the outside auditors or the financial community) effect takes place that might change the bottom line--the overall operating results. This system will be developed

MICROFILMED FROM
BEST AVAILABLE COPY

during FY 1982 and 1983, and can be in place by the first quarter of calendar year 1983 if existing FCC computer systems are utilized.

In addition to the $200,000 for system development, the FY 1983 budget includes funds for three additional staff auditors to work on Computer II implementation. Beyond this, the only money included in the FY 1983 budget for outside assistance is the $1.5 million earmarked for contract support for valuing the transfer of embedded plant.

2a. The $1.5 million in contract support which was mentioned is apparently to be used for valuing embedded plant. How many FCC staff and how much travel money are earmarked for Computer II auditing?

Four auditors are scheduled to be assigned to the Computer II Task Force on a full time basis. At present, one auditor on permanent assignment to the Computer II Task Force, and five additional auditors are detailed to the Task Force from other places within the Common Carrier Bureau. Other auditing resources of the Bureau will be available for short term projects if the need arises. If the Computer II staff plan appears too conservative, additional accountants or other personnel will be assigned on a full time basis. Travel money for auditing will be made available from the Common Carrier Bureau's general travel budget as needed.

MICROFILMED FROM
BEST AVAILABLE COPY

3. What actions have you taken, or do you plan, to monitor the offering of enhanced services and customer premises equipment by independent telephone companies?

The offering of CPE and enhanced services by carriers not subject to the separate subsidiary requirement will necessitate certain accounting changes. Some changes in the Uniform System of Accounts have been made to allow the sale of new CPE. See First Report and Order in CC Docket 79-105. 88 FCC 2d 818 (1981).

Further changes to accounting procedures will be necessary regarding sale of embedded CPE and the offering of enhanced services by carriers not subject to the separate subsidiary requirement. On December 17, 1981, the Commission adopted a Notice of Inquiry (Docket 81-893) soliciting proposals regarding those accounting procedures.

4. Is AT&T planning to provide research and development services to its fully separate subsidiary through Bell Labs? Is Western Electric going to furnish any equipment to the separate subsidiary? What specific mechanisms will be in place to ensure that the costs of these services are fully compensatory? Is requiring AT&T to file a written record of such transactions a sufficient safeguard?

MICROFILMED FROM
BEST AVAILABLE COPY

AT&T will be providing research and development services to its subsidiary through Bell Labs on a cost-compensatory basis. Equipment will be supplied to the subsidiary by Western Electric as well as Bell Labs and Long Lines.

The Computer II orders permit the separate subsidiary to engage in joint research and development (except for software) with Bell Labs on a cost compensatory basis. Appropriate books of account must be established to account for any such R&D transactions. In addition, AT&T must file any contracts regarding acquisition of R&D by the subsidiary from other AT&T affiliates within 30 days of execution.

Requiring AT&T to file a written record in itself is not a sufficient safeguard. The filing of agreements between the subsidiary and Western Electric and Bell Labs serves to provide another monitoring mechanism for use in ascertaining whether appropriate costs are being allocated to unregulated activities. In essence the filing of written agreements with the Commission puts the Commission on notice as to what joint R&D is being performed so that appropriate FCC follow-up can take place.

AT&T's capitalization plan for XYZ, Inc., and the reports AT&T has filed pursuant to paragraph 105 of the Reconsideration of Computer II, indicate that AT&T has already conducted some R&D and acquired some equipment on behalf of XYZ, Inc. The staff is presently conducting an audit to determine

MICROFILMED FROM
BEST AVAILABLE COPY

whether the R&D and equipment are being properly assigned to XYZ, Inc. In the course of the audit the staff is also reviewing the procedures and controls AT&T is establishing to account for future R&D transactions.

In Computer II the Commission also acknowledged the petition filed by NTIA (RM-3829) urging that the Commission require AT&T to establish separate subsidiaries to perform all manufacturing and applied research and development functions related to its provision of enhanced services and CPE. The Commission noted that it is currently investigating AT&T's license contract arrangements in CC Docket No. 80-742, 84 FCC2d 259 (1981). Depending on the conclusions reached and determinations made in that proceeding, the Commission has the option of pursuing the NTIA petition.

5. Please provide for the record a schedule of the activities which you will be undertaking as part of Computer II implementation, the scheduled completion date for each and the resources assigned to it.

At present, 15 staff members are working on the Computer II implementation project. Eleven are permanently assigned to the Task Force. In addition, five accountants are on loan from other parts of the Common Carrier Bureau. Of these, three are assisting in the review of preoperational expenses for AT&T's separate subsidiary and two are reviewing proposed equipment transfers relating to AT&T's pending capitalization plan. All personnel assigned to Computer II implementation are involved to some extent in each implementation project. The extent of participation varies depending on the disciplines required -- legal, accounting, economics.

MICROFILMED FROM
BEST AVAILABLE COPY

The Task Force will shortly reach its full projected strength of 17. Once the Task Force's initial projects are completed, its staffing will be reassessed to determine whether adjustments are required.

See the attached chart for a list of Computer II implementation projects and their projected completion dates.

MICROFILMED FROM
BEST AVAILABLE COPY

6a. In FY 1983 it appears that your audit activities will be greatly expanded beyond that which has been undertaken in previous years. How much travel money has been assigned to this area? What accounting and audit activities will be eliminated to allow for this expanded audit work -- since presumably the seven additional persons assigned to this area will be used on the Uniform System of Accounts revision? (pp. 53-54)

No additional travel funds were approved for our audit activities. However, because of the underlying importance of these activities to the success of our overall program efforts, travel funds that have been budgeted to support other required activities will be reallocated to the audit area as needed. Furthermore, in an effort to minimize the need for audit-related travel, steps are being taken to ensure that required financial and operating data (together with corresponding support data) will be available, when practical, in corporate offices located within the geographic commuting areas of our existing staff facilities.

To allow for our expanded audit work and to enable the audit staff to respond to other Commission investigatory requirements, there will be, at least temporarily, a deferral of routine compliance examinations and other on-site verification activities. While this will necessarily create a backlog in these areas, we are looking to the Computer II Implementation

MICROFILMED FROM
BEST AVAILABLE COPY

Task Force to provide potential relief through the development of computer-assisted verification and investigatory techniques with application capability to the entire common carrier reporting spectrum. Also, the Computer II Implementation Task Force has acquired four audit positions in its own right and will thus be able to provide additional audit support in those areas touching on its areas of responsibility.

Finally, of the seven additional positions approved for the revision of the Uniform System of Accounts (USOA), the Bureau has assigned one to the Audits Branch. And, while the other six staff members will be involved primarily with USOA revision, they will also be available to assist in other priority work on an as needed basis.

6b. Why is $1.5 million in program assistance needed to value embedded plant as part of the Common Carrier Bureau's Computer II decision? How will the services be used? Doesn't the Bureau have expertise in this area since the value of embedded plant must be considered when making adjustments in depreciation schedules?

In its Computer II decision, the Commission established the policy of detariffing new terminal equipment. The actual deregulation of embedded terminal equipment (with investment of more than $20 billion) for AT&T was temporarily deferred, however, due to several yet unresolved separations issues and,

MICROFILMED FROM
BEST AVAILABLE COPY

more importantly, the need to establish a fair value to this equipment prior to its transfer to a separate subsidiary. (This transfer will also include related land, buildings, vehicles and other peripheral equipment.) It is imperative to our regulatory responsibilities that the fair value assigned to these assets, particularly, land and buildings, be properly and equitably determined.

The funds we have requested will be used to hire consultants to conduct studies establishing an estimated fair value for the assets which will be transferred to the non-regulated subsidiary. These studies will be used by the Commission to ensure that ratepayers are not, in fact, actually subsidizing the establishment of this subsidiary.

While it is true that the Bureau does have extensive expertise in the prescription of depreciation rates, such prescription does not contemplate the "fair value" (or market value) of property but is concerned primarily with the depreciable lives of assets recorded at original cost. Establishing fair value is an appraisal activity which the Depreciation Rates staff rarely attempts to calculate or review. Moreover, due to the Commission's recent changes in depreciation policies and methods, the staff is virtually buried in on-going prescription activities. However, to the extent that the Depreciation Rates staff has available to it the time, and certainly any information critical to the valuation issue, its expertise will be sought.

MICROFILMED FROM
BEST AVAILABLE COPY

7. How many meetings has the Committee on Reciprocity held so far? Who is on it? How often will it meet?

The intra-agency working group on reciprocity was formed following discussion within the International Telecommunications Coordinating Committee (ITCC). The general objective of the working group is to take a close look at the reciprocity issues, pending legislation, current authority in this area, and potential impacts of varying scenarios. The group held its initial organizational meeting in mid-March, with its members now collecting information in their own areas. The group will meet again in mid-April and approximately every two weeks thereafter until its work is completed and its report to the ITCC is made. The group is composed of representatives from all pertinent offices and bureaus within the Commission:

S. Harris, (Chairman) Office of General Counsel
W. Freedman, Office of General Counsel
F. Young, Common Carrier Bureau (International)
W. Hassinger, Broadcast Bureau
R. DeYoung, Private Radio Bureau
F. Williams, Office of Science and Technology (Int./Treaty)
F. Rose, Office of Science and Technology
K. Gordon, Office of Plans and Policy

(see question 13, below.)

MICROFILMED FROM
BEST AVAILABLE COPY

8. During the hearings there were some questions about the amount of international travel by FCC Commissioners during FY 1981, '82, and '83. The travel and per diem figures which you mentioned during the hearings apparently included both domestic and international travel. What are the figures for international travel and per diem? The figures for domestic travel and per diem? The total?

Commissioners international and domestic travel for Fiscal Years '81, '82, and '83 are shown below. Funds listed are for the use of Commissioners and their staffs.

	International	Domestic	Total
FY 81 Targeted Allocation	15,000	40,000	55,000
FY 82 Targeted Allocation	23,000	34,000	57,000
FY 83 Targeted Allocation	16,000	27,000	43,000

MICROFILMED FROM
BEST AVAILABLE COPY

9. FCC has made promoting the coordination and planning of international communications one of its five primary objectives. The FY 1983 budget, however, shows a decrease of 11 workyears for three program areas (Science and Technology, Common Carrier, and Broadcast). Can you explain how you plan to fulfull this objective while cutting international workyears? What is different about your approach to international responsibilities? What is the significance of making international activities a priority when resources are then cut?

Indeed, the Commission's fourth of five stated objectives is:

> To promote the coordination and planning of international communications which assures the vital interests of the American public in commerce, defense and foreign policy.

Inherent in this stated objective is the pursuit of policies on international matters designed to provide the American public with reasonably priced, reliable international services and facilities and, at the same time, the representation of the best interests of the United States. Such activity includes, but is not limited to: (1) taking actions to ensure that an optimum balance of services and facilities are available to meet the foreign braodcasting and communications needs of both the U.S. public and government; (2) discouraging restrictions on U.S. companies which may disadvantage them in the international marketplace; (3) representing U.S. positions in international forums; (4) taking actions, both domestically and internationally, which encourage innovation and which may improve the U.S. balance of trade; and (5) developing positions which are consistent with broad U.S. interests in international matters.

While there are reductions totalling eleven international workyears over three major units of the Commission (Common Carrier Bureau, Broadcast

MICROFILMED FROM
BEST AVAILABLE COPY

Bureau, and Office of Science and Technology), we believe that such reductions will not have a detrimental impact on the Commission's international efforts.

Fulfillment of the fourth objective is being accomplished through the establishment of the position of the Assistant to the Chairman for International Communications. This position serves as a focal point for the coordination of all international matters within the Commission and a central point of contact for the public and other governmental agencies with regard to international matters. Additionally, this position serves as the chair for the International Telecommunications Coordinating Committee (ITCC - an intra-agency group composed of the heads of the Commission's Bureaus and Offices). Through the use of this position and the ITCC, better coordination and utilization of international manpower resources and travel funds is effectuated, not to mention better understanding between the bureaus and offices of their efforts in parallel and divergent international activities. Where parallel efforts verge on duplication, resource streamlining occurs. Should a marshalling of resources be needed in a given area, that also is accomplished.

Consequently, we believe the fulfillment of the fourth objective can and will be accomplished. Together with the Commission's Management by Objective program (MBO), which should realize greater productivity, the better coordination and focusing of international matters should more than offset reductions in position/workyear resources in the FY 1983 Budget Estimates. Should it develop that increased resources will be needed, the Commission will be prepared to request additional funds from Congress to counter that unexpected event.

The only significance that can be attributed to making international activities a priority and then cutting manpower resources in this area is that the 11 workyear decrease reflects an overall trend toward decreased

MICROFILMED FROM
BEST AVAILABLE COPY

MICROFILMED FROM
BEST AVAILABLE COPY

COMPUTER-II IMPLEMENTATION TASKS

KEY EVENTS

CAPITALIZATION PLANS

1. **Enhanced Service Cap. Plan**

   a) AT&T files ACS plan
   b) Staff reviews plan submits questions
   c) AT&T responds to Questions
   d) AT&T files supplemental enhanced services capitalization plan
   e) Comments, Responsive Comments
   f) Notice to AT&T re audit of pre-operational costs and compliance with Separation conditions
   g) Draft Audit report to Chief CCB
   h) Draft order to Chief CCB
   i) Recommended decision(RD) to Commission

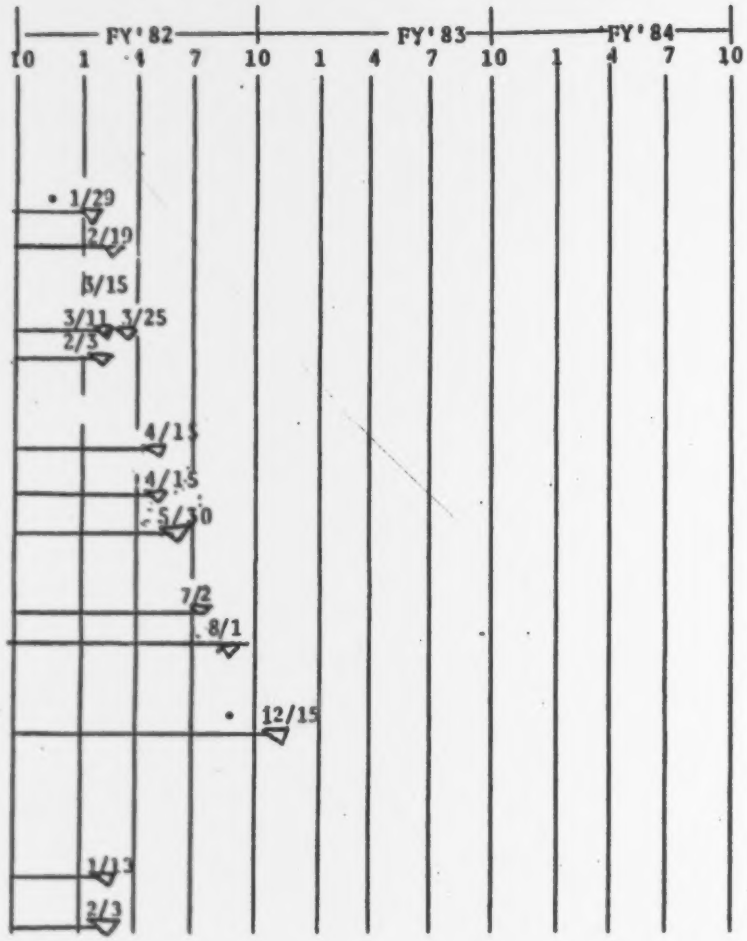
2. **CPE Cap. Plan.**

   a) AT&T Files Cap Plan
   b) Staff reviews and files follow up questions
   c) Staff analyzes comments and responses; RD to Commission

MONITORING SYSTEMS

3. **Installation and Maintenance Plan**

   a) AT&T files plan
   b) Staff reviews plan; files information request

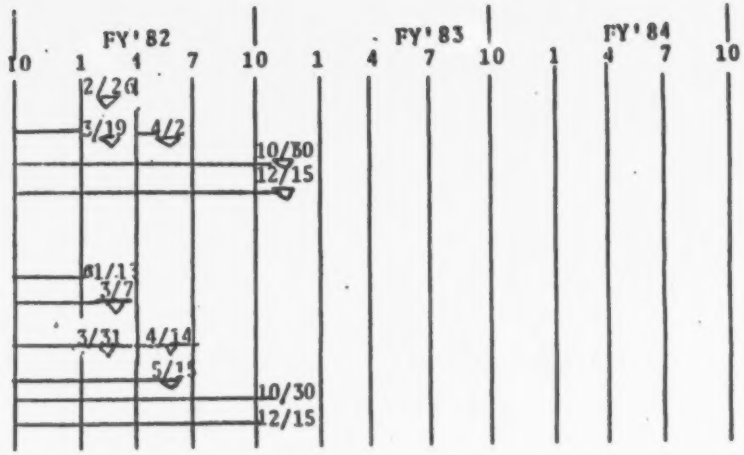


KEY EVENTS (cont.)

c) AT&T files response
d) Comments, Reply Comments
e) Staff Evaluation completed
f) Report to Commission

4) Shared Admin. · Cost Alloc. Plan

a) AT&T files plan
b) Staff reviews plan; filed information request
c) Comments, Reply Comments
d) Report to Commission
e) Staff develops audit methodology
f) Report to Commission?



MICROFILMED FROM
BEST AVAILABLE COPY

federal spending. Recognizing the importance of international matters, these resources were nevertheless reduced where efficiencies and other measures could take up slack since international is but a portion of the overall important mission and objectives of the Commission.

MICROFILMED FROM
BEST AVAILABLE COPY

10. Do you have adequate funds to represent the U.S. appropriately before various international telecommunications meetings? Which meetings that you attend are most important to U.S. interests? At what conferences or meetings will our representation be lessened? What will be the impact of less or no representation at these gatherings? Are you expecting this function to increase or decrease in complexity over the next year? Have you provided for this adequately in your budget?

At the present time, even with projected decreases in the Commission's international travel funds for FY 1983, I believe that we have adequate funds to represent the United States at upcoming international conferences and meetings. The Commission's International Telecommunications Coordinating Committee (ITCC) is currently prioritizing our international travel for the remainder of FY 1982 and will do the same for FY 1983. This process entails identifying those meetings and conferences where Commission attendance is deemed "essential" and further evaluation to determine the "minimum essential" number of personnel required at any given conference or meeting for adequate coverage of the issues involved. Through increased organization and coordination within the Commission via the ITCC, only those personnel who are deemed absolutely essential to represent the United States at international meetings and conferences, without adversely affecting representation of U.S. interests, will attend. While it may be useful to have additional participation in some cases, those situations will be viewed critically to insure less duplication of effort and needless expenditure of funds.

The major meetings and conferences involving FCC participation during FY 1983 include: (1) the ITU Plenipotentiary Conference in Nairobi (carrying over from FY 1982); (2) the ITU Mobile Services WARC in Geneva; (3) the ITU

MICROFILMED FROM
BEST AVAILABLE COPY

Region 2 Broadcast-Satellite RARC in Geneva; and (4) the ITU Administrative Council (38th) in Geneva. In addition to these meetings, there are several lesser ITU meetings and conferences, preparatory and supportive in nature, which will be held in FY 1983 (i.e., Study Groups and Working Parties of CCITT and CCIR; ITU Panel of Experts for the Broadcast-Satellite RARC, etc.). Also in FY 1983, Commission personnel will participate in international meetings and conferences of other telecommunications organization, such as the Inter-American Telecommunications Conference (CITEL-OAS), as well as in bilateral discussions within our region (primarily with Canada and Mexico).

Evaluating the actual impact of reduced travel funds at any given meeting or conference is a difficult task. Should no representation or less than "minimum essential" participation actually occur at any "essential" meeting or conference, of course there could be a negative impact on United States interests. However, we are planning to participate at the "minimum essential" personnel level in at least the "essential" meetings and conferences and such a negative impact will not occur. We believe that, with the information currently available, the international travel funds projected for FY 1983 will provide sufficient Commission representation without impairing the interests of the United States. Should developing events dictate the use of more funds, the Commission can reprogram travel funds from domestic travel to some extent. In any event, should it eventually prove necessary, the Commission is prepared to seek additional funds from Congress for international travel.

MICROFILMED FROM
BEST AVAILABLE COPY

11. The FY 1983 budget states that manpower cuts in the spectrum management area will not affect program results because the workload will be processed by computer. Is this computer support currently available? If not, will it be in place before manpower cuts are effected? What will be the impact on spectrum management if the FY 1983 manpower losses cannot be alleviated by using ADP support?

Because of the nature of spectrum management work, the use of ADP equipment can be of assistance in the examination of frequency applications, technical cross examination against existing assignments, maintenance of assisgnment records and status of applications. Historically, examination of assignments for impact on existing operations largely has been done manually. At present, to a limited extent, ADP is used in the maintenance of the non-government Master Frequency File.

Additional ADP equipment and techniques can be used to process the workload more efficiently, resulting in resource savings. However, the total package of computer support necessary to offset manpower cuts in the spectrum managment area is not yet completely in place. Most of the necessary ADP equipment is on order, and some has just recently been received. And, while it is envisioned that the installation of equipment and development of associated programs and other software will result in full operational capability early in FY 1983, it is not with complete certainty that such an assertion can be made at this time.

Should the spectrum management manpower losses actually take effect before the full operational ADP capability for offset is achieved, significant backlogs in the approximately 5500 assignments processed monthly would ensue. Considering the negative impact on the myriad of systems and services involved that such a backlog would create, the Commission would not allow such manpower cuts to take effect until the offset ADP capability is sufficiently in place.

MICROFILMED FROM
BEST AVAILABLE COPY

12. Given the increasing problems which have been facing the U.S. in advancing its position in international conferences and forums, do you believe it is appropriate to reduce the staff years for broadcast international activities by almost one-half for FY 1983?

The Broadcast Bureau's international staff was significantly increased in FY 81 and 82 in order to prepare for the Region 2 Conference on MF Broadcasting and to participate in the two parts of the conference held in March 1980 and November 1981. It is anticipated that the most significant elements of post conference work will be completed by the end of FY 82. Thus, it does not appear that a significant reduction in the Bureau's international staff in FY 83 will seriously impact upon the Bureau's international responsibilities. The Bureau will continue to respond to foreign and domestic notifications regarding new and changed assignments, participate in international conferences and bilateral meetings, and provide staff support for HF coordination during FY 83. The Bureau will, however, rely upon the Office of Science and Technology for support in any future international conferences and study groups.

MICROFILMED FROM
BEST AVAILABLE COPY

13. We understand that the Commission had considered requesting additional staff for international reciprocity enforcement within the common carrier program; however, it appears that these staff are not included in the present request. How would these staff have been used?

The Commission staff not only considered additional resources in the Common Carrier Bureau to conduct the economic and legal analyses required, but actually included them in a supplemental budget draft in the fall of 1981 along with additional resources for implementation of Computer II and the Uniform System of Accounts (USOA). While the latter two items received favorable endorsement, the additional staff for reciprocity studies activity did not.

The two additional positions (one attorney and economist) in the Common Carrier Bureau would have been used to assess the differences in U.S. and foreign facilities preferences and to develop approaches and policies to provide workable resolutions of those differences which would serve the interests of U.S. carriers and telecommunications users. Such assessment was deemed necessary because of the growing potential for adverse effects on the position of the U.S. in international trade in the rapidly expanding telecommunications services and telecommunications-related or dependent markets. This potential had become sufficiently great to require the Commission to consider these factors as a part of its public interest determinations to the extent permitted under existing law. It appeared appropriate that the Commission determine: (1) on a case by case basis, the degree to which the opportunity for U.S. entry into the relevant foreign market is essentially equivalent to the opportunity for foreign entry into the U.S. market; and (2) the instances in

MICROFILMED FROM
BEST AVAILABLE COPY

which existing law permits it to impose reciprocal terms and conditions on foreign entry or to take other actions which would aid U.S. entry into the relevant foreign markets.

Notwithstanding the fact that there were no additional resources committed to additional reciprocity studies/activities, the underlying bases for attention to this area still exist. Consequently, the International Telecommunications Coordinating Committee (ITCC - an intra-agency group composed of the heads of Bureaus and Offices within the Commission) has established an intra-agency working group to look into the subject of reciprocity. This working group draws its membership from the breadth of the Commission and is looking at reciprocity as it pertains to telecommunications generally, including: common carrier issues; reciprocal licensing agreements with other administrations; interference, spectrum sharing, usage and efficiency; and technical assistance. Additionally, this group is looking at current Commission authority regarding reciprocity and potential authority under the various Congressional proposals pending and expected. The work of this group will enable the various operating units of the Commission and the individual Commissioners to better understand this important concept, its implications, and to be in a position to implement any new or modified authority which the Commision may receive. (See question 7, above.)

MICROFILMED FROM
BEST AVAILABLE COPY

14. Mr. Fowler, last September we discussed the Commission's actions related to the authorization of domestic DBS service on an interim basis.

a. Will DBS continue to be a high priority item of the FCC?

Yes. We intend to proceed as rapidly as possible with the consideration of interim rules for the establishment of a DBS service and with decisions concerning approval of applications we have received.

b. How will the budget cuts facing the Commission in FY83 affect the ability of the Commission to carry out its goal to go forward with its consideration of DBS?

The budget cuts will not prevent us from going forward with our DBS proceedings and probably will not delay activities scheduled for the near future such as consideration of interim rules. Lack of manpower due to the budget cuts may delay some later activities for alternative frequencies for terrestrial microwave operators, and implementing the frequency allocations to DBS following the 1983 Regional Administrative Radio Conference.

c. Will the commitment of resources to Computer II affect your ability to consider DBS on a timely and thorough basis?

No. We do not expect that the commitment of resources to Computer II will have any effect on our plans for DBS.

MICROFILMED FROM
BEST AVAILABLE C

15. Your budget submission indicates that the Commission's public service capabilities will be drastically reduced in FY 1983. Each of your major activities proposes significant cutbacks in direct services to the public--i.e., responding to public inquiries and complaints, preparing and providing instructional and educational material, and providing access to FCC data and information, as well as in acting on applications from the public. Can the Commission sustain these reductions and still effectively serve the public?

We believe that the Commission can sustain these reductions and still effectively serve the public. There will, of course, be some adverse effect on the level of direct service to the public. The processing of complaints and response time to requests for information will be slowed. It can also be expected that our informal dispute resolution process will be less effective because of reductions in this area. However, with rising productivity, elimination of unnecessary rules and regulations, and changes to application forms, we believe our overall level of direct service to the public will not be significantly impacted.

MICROFILMED FRO
BEST AVAILABLE C

Mr. ENGLISH. The subcommittee stands in recess subject to the call of the Chair.

[Whereupon, at 11:45 a.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

O

MICROFILMED FROM
BEST AVAILABLE